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Baragar and Ms. Mary T. Dutcher at Boeing. In the e-mail, Mr. De Leon stated that:

#### Activity Increasing on 767 Tanker Initiative

[A Representative] and [another Representative] spoke directly with [a White House official] in support of moving ahead on the tanker lease. In both cases, [the White House official] reportedly expressed his support for moving ahead with the tanker initiative, and asked [another White House official] to be 'on point' for this effort. The [Representative] has followed up directly with [the other White House official]. [A Representative] also spoke directly with [the other White House official], with particular emphasis on the important distinction between leasing (now) versus buying (later). Secretary Roche and [an Office of Management and Budget official] have both recently indicated that if the lease deal gets too complicated, then the Air Force would look to a traditional procurement (2-3 years later than lease with much slower acquisition ramp-up).

[A] Senator continues to engage with OMB. [A Representative] engaged directly with [an Office of Management and Budget official] – of note from discussion was [an Office of Management and Budget official's] reference to nothing getting done prior to the November election. Secretary Roche has continued to discuss issue with [an Office of Management and Budget official], and [the official] reportedly is arguing against the lease based primarily on concern over the size of the deal and the precedent it may set. OMB staff continue to manipulate variables and assumptions that decrease the attractiveness of the net present value business case analysis, and are also questioning the need to accelerate recapitalization of the tanker force based on existing Air Force analysis of the potential service life of the KC-135 force. Boeing is working with Air Force to rebut OMB on this point. In a meeting with Jim Albaugh, Assistant Secretary of the Air Force, Marv Sambur, commented that Secretary Roche was on board. This is the most optimistic Secretary Sambur has been on the tanker deal this past year. Efforts to generate direct state, local and federal support for the tanker initiative are underway through contact with National Guard Adjutant Generals.

#### Jim Albaugh Visits with Member of Congress

This week, Jim Albaugh made a number of personal calls to Members of Congress in support of Boeing programs being resolved for the FY-03 defense bills. Reports on individual programs such as additional F/A-18's were very favorable. The 767 tanker lease program was a recurring topic on each call. Of significance, was the general universal support for the 767 tanker lease. Several senior members indicated their preference for a tanker procurement program instead of a lease but indicated their support for the lease if the numbers proved to be 'good deal.' Several members supporting the tanker initiative reported extremely positive comments from the Administration.

On September 20, 2002, Major General Leroy Barnidge, Air Force Director of Legislative Liaison sent an e-mail to Dr. Roche; General John Jumper, Air Force Chief of Staff; General Robert Foglesong, Air Force Vice Chief of Staff; and Lieutenant General Joseph H. Wehrle, Jr., Air Force Assistant Vice Chief of Staff with a cc: to Mr. William C. Bodie, Special Assistant to the Secretary of the Air Force; [REDACTED] Senior Military Assistant, Office of the Secretary of the Air Force; [REDACTED] Executive Officer to the Air Force Chief of Staff; [REDACTED] Office of the Air Force Chief of Staff; [REDACTED] Office of the Air Force Vice Chief

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of Staff; [REDACTED] Office of the Air Force Vice Chief of Staff; [REDACTED] Office of the Air Force Assistant Secretary (Financial Management and Comptroller); [REDACTED] Confidential Assistant to the Secretary of the Air Force; [REDACTED] Secretary, Office of Air Force Legislative Liaison; [REDACTED] Chief, Program and Legislative Division, Office of Air Force Legislative Liaison; Brigadier General Thomas L. Carter, Military Assistant to the Director of Legislative Liaison; Brigadier General Scott B. Custer, Office of Air Force Legislative Liaison; [REDACTED] Office of Air Force Legislative Liaison. In his e-mail, Major General Leroy Barnidge stated:

Sirs –

Late yesterday, [a Representative] made a late notice visit to Andrews to see the new 737s. He was pleased with what he saw. Of note, however, he pulled [REDACTED] over (who had run to support [the Representative's] visit) and related that he, [the Representative] had talked with [REDACTED] ref 767 lease. Said, [REDACTED] agreed that we need to make this work.' Also told [REDACTED] that he ([the Representative]) '...will work with SAC [Senate Appropriations Committee] leadership to ensure initiative comes together.'

Additional data point: Proposed HASC [House Armed Services Committee] language is [s]till more restrictive:

'The Secretary of the AF [Air Force] shall not enter into any lease for tanker aircraft until the Secretary submits the report required by section 8159 (c) (6) of the Department of Defense Appropriations Act, 2002 and obtains authorization and appropriation of funds necessary to enter into a lease for such aircraft consistent with his publicly stated commitments to the Congress to do so.'

Dr. Roche, we will rehighlight [the Representative's] position in your email prep [preparation] before your office call with [the Representative] next Wed, 25th, 1800.

On September 22, 2002, in response to Lieutenant General Duncan McNabb's e-mail, General John Jumper sent an e-mail to Lieutenant General Duncan McNabb and Dr. Roche with a cc: to Mr. William C. Bodie; General Robert H. Foglesong; Ms. Druyun; Major General Bill Essex; Lieutenant General Joseph H. Wehrle, Jr.; and Major General Leroy Barnidge in which he stated:

Tanker numbers much different than I expected. Good chart.

On September 23, 2002, in response to Lieutenant General Duncan McNabb's e-mail, Ms. Druyun sent an e-mail to General John Jumper, Lieutenant General Duncan McNabb, Dr. Roche, Major General Bill Essex, and Dr. Sambur with a cc: to Mr. William C. Bodie; General Robert H. Foglesong; Lieutenant General Joseph H. Wehrle, Jr.; and Major General Leroy Barnidge in which she stated:

I do not agree with the AUPP [Average Unit Procurement Price] being used in the tanker chart. Our lease price we have negotiated I would characterize as a one time [g]ood deal. I expect it will be higher, closer

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\*Removed for reason stated in the initial asterisked footnote. (The reference is also on page 13.)

b(6) - OSD Redaction

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to the price being paid by the Italians who are not getting digital cockpit etc vs. our configuration. I also know what the EADS [European Aeronautic Defence and Space Company] proposal was and Boeings was better for the Italians. I would add approximately \$30M [million] to the AUPP for each aircraft. If the 767 line is shut down the number will be even higher.

On September 23, 2002, as an update to her earlier response to Lieutenant General Duncan McNabb's e-mail, Ms. Druyun sent an e-mail to General John Jumper, Lieutenant General Duncan McNabb, Dr. Roche, Major General Bill Essex, and Dr. Sambur with a cc: to Mr. William C. Bodie; General Robert H. Foglesong; Lieutenant General Joseph H. Wehrle, Jr.; and Major General Leroy Barnidge in which she stated:

Should have read 'one time good deal'...to early in the AM to type!. Bottom line is if we recalculate the numbers with a higher AUPP [Average Unit Procurement Price] you will have fewer tankers available. I have asked AQQ [Office of the Director of Global Reach Programs] to recalculate.

On September 23, 2002, in response to Ms. Druyun's e-mail, Lieutenant General Duncan McNabb sent an e-mail to her in which he stated:

Darleen,  
We got the numbers from Bill and his folks—I'm not sure what the caveat needs to be—but just let us know.

On September 23, 2002, in response to Ms. Druyun's e-mail, Lieutenant General Duncan McNabb also sent an e-mail to Brigadier General Raymond Johns, Deputy Director of Programs, Office of the Air Force Deputy Chief of Staff for Plans and Programs; and Major General Bill Essex with a cc: to Ms. Barbara Westgate, Associate Director, Office of the Director of Programs, Office of the Air Force Deputy Chief of Staff for Plans and Programs; Major General Gary Heckman, Office of the Air Force Deputy Chief of Staff for Plans and Programs; Major General Kevin Chilton, Office of the Director of Programs, Office of the Air Force Deputy Chief of Staff for Plans and Programs; [REDACTED] Office of the Directorate of Strategic Planning, Office of the Air Force Deputy Chief of Staff for Plans and Programs; and Major General Ron Bath, Director, Directorate of Strategic Planning, Office of the Air Force Deputy Chief of Staff for Plans and Programs. In the e-mail, Lieutenant General McNabb stated: b(6) - OSD Redaction

Ray/Bill,  
I'm not sure what the problem is here—thought it was a pretty straight forward question and we got the numbers from AQ [Office of the Assistant Secretary of the Air Force (Acquisition)]—what's up?

On September 23, 2002, in response to Ms. Druyun's e-mail, Dr. Roche sent an e-mail to Ms. Druyun, General John Jumper, Lieutenant General Duncan McNabb, Major General Bill Essex, and Dr. Sambur with a cc: to Mr. William C. Bodie; General Robert H. Foglesong; Lieutenant General Joseph H. Wehrle, Jr.; and Major General Leroy Barnidge in which he stated:

Ok, Gang, let's resolve this and get the charts reissued. Thanks much.

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On September 23, 2002, in response to Ms. Druyun's e-mail, Dr. Sambur sent an e-mail to Dr. Roche, Ms. Druyun, General John Jumper, Lieutenant General Duncan McNabb, and Major General Bill Essex with a cc: to Mr. William C. Bodie; General Robert H. Foglesong; Lieutenant General Joseph H. Wehrle, Jr.; and Major General Leroy Barnidge in which he stated:

Boss

Darleen is correct that the purchase price will be higher and thus the number of tankers that can be purchased will be lower. However the main thrust of the chart (that is independent of purchase price) is that we will have only 1 plane delivered by 2009 (if we go according to the POM) and 67 planes delivered by 2009 (if we lease). Thus we get the planes significantly sooner and avoid the corresponding O&M [operation and maintenance] bills. On the 'significantly sooner issue' we have developed a new requirement chart in concert with Gen [General] Handy that reflects our tanker needs in line with the new homeland defense requirements. The analysis is secret but the data dramatically supports our lease argument!! We will show OMB [Office of Management and Budget] our new analysis and would like to show you and the Chief the presentation as well.

On September 23, 2002, Major General Essex forwarded Dr. Sambur's e-mail to [REDACTED] Office of the Air Force Director of Global Reach Programs, Office of the Assistant Secretary of the Air Force (Acquisition). b(6) - OSD Redaction

On September 23, 2002, in response to Lieutenant General Duncan McNabb's e-mail concerning Ms. Druyun's e-mail, Major General Kevin Chilton sent an e-mail to Lieutenant General Duncan McNabb, Brigadier General Raymond Johns, and Major General Bill Essex with a cc: to Ms. Barbara Westgate, Major General Gary Heckman, [REDACTED] and Major General Ron Bath in which he stated: b(6) - OSD Redaction

Sir,

Talked to Gen [General] Essex. The [REDACTED] per jet number they gave us had two reasonable assumptions in it. One, that the 767 production line would not be shut down in the interim and have to be re-started, and two, that the Air Force would be able to negotiate a multiyear purchase deal. Another mitigator is that if we secure a production deal near the end of Boeing's 767 production for airline customers, that we would be able to get some of the same benefits (reflected in a reduced price per jet) we derived from the KC-10 purchase. That said, Mrs. Druyun feels the [REDACTED] number is [REDACTED] low. We will recompute the purchase #s using the [REDACTED] figure and include the [REDACTED] numbers on a separate line with an asterisk [asterisk] that lists the assumptions I've discussed.

b(4) - OSD Redaction

On September 23, 2002, Major General Bill Essex forwarded Major General Kevin Chilton's e-mail to [REDACTED] Office of the Air Force Director of Global Reach Programs, Office of the Assistant Secretary of the Air Force (Acquisition); [REDACTED] Mobility Division, Office of the Air Force Director of Global Reach Programs; [REDACTED] Chief, Mobility Division, Office of the Air Force Director of Global Reach Programs; [REDACTED] Mobility Division, Office of the Air Force Director of Global Reach Programs; and [REDACTED] b(6) - OSD Redaction

██████████ Mobility Division, Office of the Air Force Director of Global Reach Programs.

On September 23, 2002, in response to Major General Bill Essex's e-mail forwarding Major General Kevin Chilton's e-mail, ██████████ Office of the Air Force Director of Global Reach Programs, Office of the Assistant Secretary of the Air Force (Acquisition) sent an e-mail to ██████████ and ██████████ with a cc: to Major General Bill Essex, ██████████ and ██████████ in which he stated:

██████████  
I just got off the phone with ██████████ in Dr. Sambur's office. Dr. Sambur would like to include the costs on the tanker chart below for both lease and purchase (add two rows to the table). He would like it in a powerpoint slide. He only wants the tanker information in a powerpoint slide. Format of the table will now include the following rows:

Lease Then Purchase  
Cost  
Blank  
04 POM [Program Objectives Memorandum] Purchases  
Cost  
04 POM Deliveries

If possible, he needs this by COB [close of business] today, 23 Sep [September].

On September 23, 2002, in response to ██████████ e-mail, ██████████ sent an e-mail to ██████████ Air Force Program Executive Office for Strategic Programs; ██████████ at the Aeronautical Systems Center; ██████████ at the Aeronautical Systems Center with a cc: to ██████████ and ██████████ in which he stated:

██████████  
How do you propose I answer this tasker from Dr. Sambur. [sic]

We haven't seen any new budget numbers from the SPO [system program office] since early August.

Will have to use the August numbers, but since this will be the first time the SAE [Service Acquisition Executive (Dr. Sambur)] sees costs associated with the lease, not to mention SECAF [Secretary of the Air Force] and the GOs [general officers] on the Staff, I want to make sure they are still roughly valid.

On September 23, 2002, in response to ██████████ e-mail, ██████████ sent an e-mail to ██████████ and ██████████ with a cc: to ██████████ and ██████████ in which he stated:

SPO [system program office] has request per your email. A suggestion on the POM [Program Objectives Memorandum] price would be to not assume multiyear and use ██████████ negotiation spreadsheet to calculate a

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price based on not as big [of a] discount on Green [aircraft] and less learning on early mod [modification] installation.

On September 23, 2002, in response to [redacted] e-mail, [redacted] sent an e-mail to [redacted] and [redacted] with a cc: to [redacted] and [redacted] in which he stated:

Will use 180 for lots 1-4 per Mrs. Druyun. Will assume MYP [multiyear procurement] of 150 thereafter.

On September 23, 2002, [redacted] sent an e-mail to Major General Bill Essex and [redacted] with a cc: to [redacted] and [redacted] in which he stated:

Sirs,

[redacted] (FML) relayed the following three questions from [a Senator]. eeds answers by 1100. Recommended answers provided. Recommend approval for release.

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**1) What is the effect on the lease proposal if the general provisions requested by the USAF [U.S. Air Force] are not included in the bill? [Emphasis added.]**

**A1) The provisions will allow the USAF to carry termination liability as a contingent liability and will not require the service to set aside the liability amount. The lease deal becomes unaffordable if the termination liability bills must be specifically budgeted. [Emphasis added.]**

**2) What is the annual bill for termination liability that must be budgeted for under OMB's [Office of Management and Budget] rules?**

**A2) Starting in FY03 the following is the termination liability per year in [redacted]**

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**3) What is the schedule for going on contract and what is the leased aircraft delivery schedule?**

**A3) Boeing and USAF remain in negotiations. The negotiating team projects a December Contract award, if AF [Air Force], OSD [Office of the Secretary of Defense], OMB [Office of Management and Budget], and Congress concur with the negotiated lease. Based on a December 2002 contract award, the delivery schedule is: starting in FY06 11/16/20/20/20/13 (last delivery is FY11).**

On September 24, 2002, as a followup to his e-mail of September 20 to Dr. Roche, Lieutenant General Duncan McNabb sent an e-mail to Ms. Druyun, Major General Bill Essex, and Dr. Sambur with a cc: to Major General Kevin Chilton in which he stated:

Marv/Darleen/Bill

Here's the e-mail I'd like to send to the SECAF [Secretary of the Air Force] and CSAF [Chief of Staff Air Force] this morning. My folks say you are ok now with the profile (given that we have the flexibility in the MILCON [Military Construction (Appropriation)] to absorb the possible increase). I've highlighted the point you make about the real issue being the 67 vs 1 deliveries. With your coord [coordination], I'd like to get this out this morning.

Mr. Secretary/Chief,

The KC-X POM [Program Objectives Memorandum] schedule I sent you on Friday is still correct. We have reconfirmed with AQ [Office of the Assistant Secretary of the Air Force (Acquisition)] that we have enough money laid in to purchase the 21 aircraft in the FYDP [Future Years Defense Program]—even if the price increases to [REDACTED] per aircraft that Darleen highlighted in her e-mail. If the price is higher, we plan to make an adjustment in how we lay in the MILCON, but we still have an executable plan (we have laid in over [REDACTED] in MILCON from 06-09 and could push some of it to FY10 and FY11).

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Both Dr. Sambur and Darleen believe the most important point is that under the lease you will have 67 aircraft delivered by 09, while under the purchase approach in the 04 POM, we will only deliver 1 (given the two years from purchase to delivery).

On September 25, 2002, [REDACTED] Air Force Strategic Programs, Office of the Assistant Secretary of the Air Force (Acquisition) sent an e-mail to Brigadier General Ted F. Bowlds, Program Executive Officer for Strategic Programs, Office of the Assistant Secretary of the Air Force (Acquisition); [REDACTED] Program Executive Office for Strategic Programs; [REDACTED] at the Aeronautical Systems Center; and [REDACTED] at the Aeronautical Systems Center with a cc: to [REDACTED] Office of the Air Force Director of Global Reach Programs, Office of the Assistant Secretary of the Air Force (Acquisition); [REDACTED] Mobility Division, Office of the Air Force Director of Global Reach Programs; [REDACTED] Chief, Mobility Division, Office of the Air Force Director of Global Reach Programs; [REDACTED] Mobility Division, Office of the Air Force Director of Global Reach Programs; and [REDACTED] Mobility Division, Office of the Air Force Director of Global Reach Programs. In the e-mail, [REDACTED] provided notes on tanker meetings with the Chief of Staff of the Air Force and the Secretary of the Air Force:

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**CSAF [Chief of Staff of the Air Force] Meeting**

-Focused on need, show availability in our year as 'fuzzy' 'unknown,' showing ESL [expected service life] projection is downward trend, with corrosion being one big unknown

-Wanted to ensure SECAF [Secretary of the Air Force] knows POM [Program Objectives Memorandum] acceleration meant purchase 21 but only deliver 1 inside FYDP [Future Years Defense Program]

-Recommended that we show cost avoidance of retiring 135Es to SECAF

-Chief stated that 'you don't need to sell me' 'this made good sense from the start'

-Chief stated he was optimistic

**SECAF Meeting**

-Termination liability addressed as issue needs to be fixed by Congress or not able to execute deal

--Mrs. Druyun mentioned that Congress allowed us to waive TL [termination liability] for the Gulfstream V contract

1 Funding identified as issue; XP [Deputy Chief of Staff for Plans and Programs] pushed for strategy to approach how we get additional \$2B [billion] for lease inside FYDP. XP addressed at end of meeting again mentioning that we could push for OSD [Office of the Secretary of Defense] to provide money much like we did a few years back with C-17 National Airlift Fund. SECAF acknowledged that TRANSCOM [U.S. Transportation Command] (working capital fund) is setup to breakeven and not pay for recapitalization costs.

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-SECAF stated that we don't want to put another dime into these old 135Es

-SECAF summarized key points

- 1) Mission of tankers dramatically changed and we now refuel everybody
- 2) Estimates on maintenance costs increasing with rate of change growing at first derivative function
- 3) Lease 100 a/c at a time is good strategy. We learn, observe, retire old ones, return leased or keep, and figure out what right quantity and mix should be. Flexible strategy.

-SECAF view is that lease is hedge or insurance policy for staying on 'blue line' (most likely availability). We have no experience with a/c this old.

-Asked about rebate. Explained if sold to another customer. AF [Air Force] keeps anything received over loan balance.

-Dr. Sambur mentioned call from Boeing, Jim Albaugh, stating we are getting good opportunity/deal

-SECAF asked about cost of Trainers. Seemed high to him. What did it include? Wanted to make sure Boeing wasn't padding the number. After some explanation that it covered more than 6 years and went out to FY 17, he felt more comfortable. Action item taken by Mrs. Druyun to provide more information on what was included in trainers cost/justification.

-Asked about fixed rate of bond not being variable after takeout, asking if shows up in price of bond. Yes sir, fixed rate bonds.

-Asked about commercial insurance ending if you buy. Yes.

-Asked about word Smart Tanker on chart for recap options questioning whether cost for that Smart package included here or in another cost package. Answer was cost was in another package. Mrs. Druyun mentioned that the 767 had the growth laid into it for the Smart Tanker spiral.

-SECAF questioned whether the NPV [net present value] had the cost avoidance included. Answer: no, just complied with A-94 which doesn't allow it.

-SECAF mentioned that the AF business case for POM [Program Objectives Memorandum] (purchase) would have to include big costs for AFMC [Air Force Materiel Command] 'monster program office'

-SECAF questioned assumption for last alternative of reengine, wait, then be forced into a developmental platform. Why not 777? Some explanation was provided that it was too big for need with not a lot of extra offload for size, but it was acknowledged that depending on strategy it could fulfill some of refueling requirement (like KC-10s).

-SECAF wanted to know average age of 135 in 2020; 60

-SECAF agrees with briefing. We have a good deal to bring forward. WE have good deal for taxpayer and DOD.

-Next steps

- Brief Pete Aldridge before leasing panel
- Have Mr. Aldridge send memo to Rumsfeld and Wolfowitz
- Go back to OMB [Office of Management and Budget], label it draft, ask if they have a problem if we discuss with Congress
- Get [a Representative] to look at it and get his read since he sided with [a Senator] before.
- Get with Lease Panel.
- Caveat deal contingent with working out issues (such as TL [termination liability]) with OMB and Congress (need to see where we are with termination liability, Gulfstream may be precedent)
- Congress may decide not to return to session depending on what happens in elections.
- Gen [General] Zettler questioned if committees have to ok
- SECAF stated that if we still get report to staff in early Dec, and Congress (Senate Armed Services Committee) pushes for hearings then



we may be in the Spring. But we only need new TL language in this year's appropriation conference.

questioned lease policy if Navy trying to get out of lease and we are pursuing one.

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--Navy did stupid lease.

--SECAF stated timing is different now. SECAF noted that people need somewhere to put money now since market is down. Bonds are good investment, the money is out there. This is good rate for people.

-General Baker, AMC [Air Mobility Command] vice, stated that although it was stated that this plane is a 1 for 1 R equivalent; it still brings other benefits/capabilities to warfighter including better availability

--SECAF noted that yes it also helps freighter position

-SECAF stated that we still needed to tell Gen [General] Myers that we need to keep some 135s until they reach age 80.

Dr. Sambur Follow-Up

-Need to add cost avoidance. Cautioned that since 767 has O&M [operation and maintenance (appropriation)] bill also, avoidance may not really be that great. Explained that its hard to get apples to apples CLS [contractor logistics support] vs organic. Mrs. Druyun stated that the 767 also has nonrecurring portions of costs built in. Dr. Sambur said its got to be less to maintain a new plane. Said if can't get exact apples to apples, still need applesauce.

**October 2002.** On October 7, Dr. Sambur sent an e-mail to Dr. Roche in which he stated:



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OMB concerns are all answerable, but not irrefutably so. For example, Requirements - They view our requirements chart and maintain that the delta between need and availability is bogus given that we have been able to live with the deficit for so many years (and especially during the present conflict). Our answer is that we have been playing Russian roulette.

Refund scheme. They view the scheme as very clever but violates the congressional rules and the operating lease requirements. Our answer is that we have no commitment to buy the tankers. Only an agreement to get a payback should they sell the tankers for more than \$30M [million].

Commercial lease. They view the market for tankers as only being military (which violates the operating lease rules). We assert that they may be correct but the residual value is based on the commercial use of the planes as commercial cargo transports and not as tankers. The residual value has the conversion to transport already baked into the price.

Modification of the 767. They argue that we have violated the congressional language that requires a green plane. We answer by pointing to the congressional dialog that defines a green tanker.

You may have to have another high level meeting with (Robin [Cleveland]) to discuss these issues.

Marv

\*Removed for reason stated in the initial asterisked footnote. (The first reference is also on page 14.)

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On October 7, 2002, in response to Dr. Sambur's e-mail, Dr. Roche sent an e-mail to Dr. Sambur in which he stated:



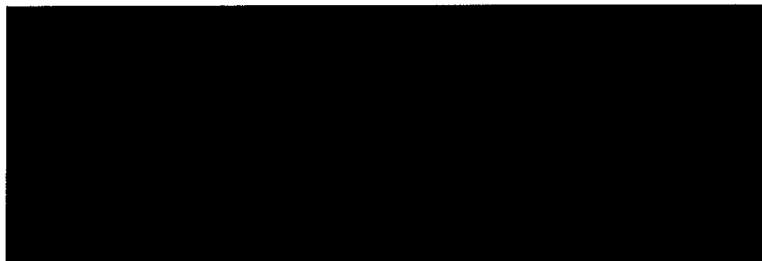
b(5) - OSD Redaction

On October 22, 2002, General John P. Jumper, Air Force Chief of Staff, approved the "Operational Requirements Document, AMC 004-01-B, Air Refueling Aircraft Program, ACAT [Acquisition Category] Level IC."

On October 22, 2002, Dr. Sambur sent an e-mail to Dr. Roche in which he stated:

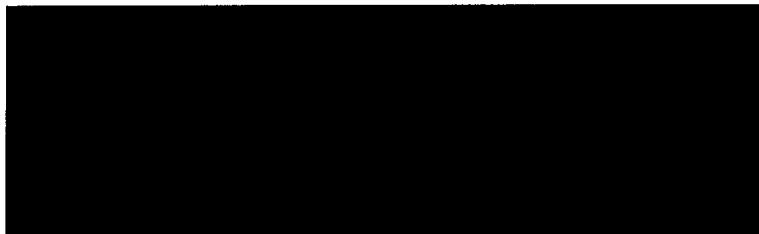
Boss  
Our problem is that we do not have a good answer to why we claim that we have a[n] urgent need for tankers BUT we are retiring 67 KC135E's in the FDYP [FYDP (Future Years Defense Program)] to save \$1B [billion] BUT we need an additional \$1.7B [billion] to lease the tankers. Our other problem is that we have a parametric approach to deriving pricing that has black magic associated with the weighing function. I tried to give an intuitive interpretation that went down better but our inability to explain in a concise manner the complicated weighing function is an issue. I am working with our people to develop a more concise explanation.  
Marv

On October 28, 2002, Dr. Roche sent an e-mail to Dr. Sambur with a cc: to Ms. Druyun in which he stated that:



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On October 28, 2002, in response to Dr. Roche's e-mail, Ms. Druyun sent an e-mail to Dr. Roche and Dr. Sambur in which she stated that:



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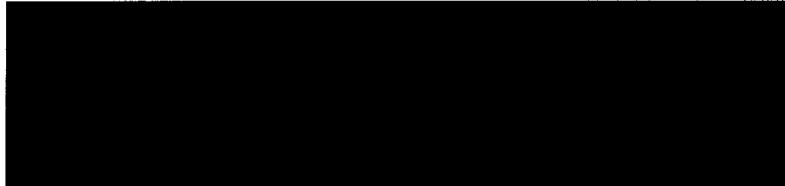
\*Removed for reason stated in the initial asterisked footnote. (The second and third references are also on page 208.)

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On October 28, 2002, in response to Ms. Druyun's e-mail, Dr. Roche sent an e-mail to Ms. Druyun and Dr. Sambur in which he stated:

Darleen, I don't doubt you for a minute. My point was that, once OMB [Office of Management and Budget] and the WH [White House] take the lead, they own the responsibility! Let [a Representative] deal with them!

On October 29, 2002, in response to Dr. Roche's e-mail, Dr. Sambur sent an e-mail to Dr. Roche and Ms. Druyun in which he stated:



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On October 29, 2002, in response to Dr. Sambur's e-mail, Dr. Roche sent an e-mail to Dr. Sambur in which he stated:



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On October 29, 2002, Mr. John B. Sams, Jr. at Boeing sent an e-mail to Mr. Bob Gower at Boeing with a cc: to Mr. Jack M. House at Boeing in which he stated:

The following is a recap of the meeting at the White House on Monday [October 28] with [a White House official], the AF [Air Force] (including Sec [Secretary] Roche), OMB [Office of Management and Budget] and OSD [Office of the Secretary of Defense], furnished by [redacted] who was in attendance:

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Meeting was characterized as basically 'a draw'

Early in the meeting Sec Roche poorly fielded a question by [the White House official] in reference to the AF's requirement for tankers. AF felt this damaged their case, and Mr. Roche did also.

Clearly, [the White House official] had been previously been [sic] briefed by OMB, as many of his questions focused on OMB issues, which gave the AF the opportunity to respond – favorable outcome in AF's view.

At the end of the meeting, [the White House official] summarized the meeting by summarizing why we want to do this. His focus:

- We must have a sense of urgency – the market in the aviation industry is now right!

- Interest rates support acting now

- His final question was 'How many jobs does this create, and by year?'

AF is preparing a letter back to [the White House official] today, thanking him for the meeting, correcting the mis-statements [sic] (my characterization) made in the meeting as to requirements, and providing the data on jobs requested. This letter is to be forwarded by COB [close-of-business] today.

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\*Removed for reason stated in the initial asterisked footnote.

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On October 29, 2002, Mr. Andrew K. Ellis at Boeing sent an e-mail to Ms. Druyun in which he stated:

[D]arleen:

[I]nformation on tanker value/jobs [I] sent to you last night was pulled together this past summer and is very conservative. [W]hen you work through the numbers, only about 60% of the domestic value of the tanker is even identified/mapped. [I]t translates to only about [REDACTED] direct domestic jobs, when we believe, in the end, program will actually support at least [REDACTED] direct jobs. [D]ata is a fair, but only partial rough order of magnitude, representation of distribution of where the dollars/jobs will end up – it should be viewed as a very conservative ‘floor.’

[B]ob [G]ower’s team ran numbers last night based on projected spend plans by year. [B]ased on these spend plans, they used a very conservative factor of [REDACTED] to derive year by year cumulative employment numbers, even using this conservative factor, employment reaches [REDACTED]. [U]sing a less conservative dollar/job factor would put direct tanker jobs well up over 30,000.

[F]or [W]hite [H]ouse, this shows direct tanker jobs (it will be some currently unidentifiable combination of ‘creating new’ or ‘sustaining existing’ jobs) growing rapidly from the [REDACTED] – if [W]hite [H]ouse makes decision to move forward with the program.

[O]f course, adding indirect jobs provides a significant boost in these employment numbers.

[H]opefully the combination of approximate state by state distribution of value/jobs, and the cumulative year by year employment numbers below, will provide you enough ammunition for the [S]ecretary to respond to [W]hite [H]ouse.

[O]nce [S]ecretary responds, we can reinforce similar message through other channels.

b(4)

On October 29, 2002, Mr. Andrew K. Ellis at Boeing forwarded to Mr. Bob Gower at Boeing the e-mail he sent to Ms. Druyun and stated:

[B]ob: fyi [FYI] below. [C]opy of my note this morning to [D]arleen. [T]hanks for your quick help last night. [I]f [A]ir [F]orce is smart, numbers you generated can be used effectively.

[I]n category of ‘what have you done for me lately?’ – [R]udy asked this morning about DRS Laurel. [H]is point was that the political value of consummating the strategic partnership and going to [a Representative] (so he can leak/announce and take credit) is significantly greater before next [T]uesday’s election than after?

[I]’ll give you a call later this morning on this one.

**November 2002.** On November 5, Ms. Druyun submitted a letter to the Air Force ethics office, recusing herself from further negotiations with Boeing and retires mid-month.

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On November 16, 2002, Dr. Roche sent an e-mail to Mr. Michael M. Sears at Boeing in which he stated:

Mike, I think it's time to raise some eyebrows, if not an alarm, about the poor Hill and Administration support the Air Force is getting from Boeing. Specifically:

1. I am very unhappy with the bland support we received on the C-17 funding initiative. Of course, we will comply with the SAC/HAC [Senate Appropriations Committee/House Appropriations Committee] direction to fully fund the [C-]17 this year. But, any Boeing notion that we will rob others to make up for this problem would be arrogance of the first order. Believe me, Boeing will face at least it's fair share of this unexpected hit to our POM [Program Objectives Memorandum]. You all did little to help the Congress understand and accept our agreed to approach. It was our mutual responsibility to explain the approach. Our people felt very lonely.

2. [A Senator] has written the building asking about the supposed overrun on the F/A-22 EMD [engineering and manufacturing development] program. Hello? Why didn't the one third partner on the program take the time to help the staff of the senior Senator of the state in which its mil [military] sector is located? More Boeing arrogance? Or, are your people asleep? Do you not care about the [redacted] which you would lose if the [F/A-] 22 went down? Given your non-position on the 35 [F-35, Joint Strike Fighter], I'm stunned about the blasé approach you have taken re the 22.

b(4) - OSD Redaction

Mike, both Johnny and I are seething over Boeing's behavior. Oh, if you all don't start talking up the [Boeing] 767 lease when you visit OSD [Office of the Secretary of Defense] colleagues, you will see that program go down (we understand that the staff is building up a head of steam to stop the lease). Gee, Mike, when I knew you and Phil, I had the sense you wanted to make money. Guess I was wrong. I'm off to PACAF [Pacific Air Forces], but Marv Sambur is here. Time for some senior mgt [management] attention, Old Friend.  
Be well. Jim

On November 19, 2002, Dr. Roche sent an e-mail to Mr. Aldridge with a cc: to General John Jumper, Air Force Chief of Staff; Dr. Sambur; and Mr. William C. Bodie, Special Assistant to the Secretary of the Air Force in which he stated:

Pete, old Buddy, you have been our strongest supporter on the issue of the lease. I now hear that your staff is telling us that you are weakening. Please don't. Here is some food for thought:

(1) Regardless of OMB [Office of Management and Budget], the deal is a good one for the taxpayer.

(2) Every time we come forward with something good for the taxpayer, the bureaucrats (including yours) feel that they have to fight it (job security?)

(3) To delay for two years to do an AoA [analysis of alternatives] is simply silly. If just means two more years of wasted repair costs on the E models; a waste of taxpayers' money to some beltway bandit; more bureaucratic delay by PA&E [Program Analysis and Evaluation]; and an end which is predictable. [Emphasis added.]

(4) Since neither ships, trucks, or tiny planes can serve as tankers, we will be looking at big planes. Guess what? We're already there. We will waste money and have nothing to show for it.

(5) Hey, we can extend the life of the E's and re-engine them! We'll that doesn't pass Grant's lieutenant's test: it means we will be flying 80 year old planes in a few years!!!! Average age is now between 42 and

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44 years. Re-engining won't solve the inherent catalytic corrosion problem. More waste of money.

(6) Gee why didn't we [go] for 50 or 60 or 70 year old Air Force ones? How many of our bureaucrats fly in such old planes? I'm getting used to some in their late 40s, but I'm not so picky! But, why don't we make the Navy sail 60 year old destroyers? Or submarines? Because it's dumb.

(7) If we wait, there may not be a 767 line! Hey, can we convert used ones? Here we go again. We can waste money with half measures that are penny wise and pound foolish. Why not do the same for ships? OK, so we'll be forced to buy French airplanes.

(8) To kill this idea in OSD [Office of the Secretary of Defense] is proof that there may be words like "acquisition reform," but they are hollow. The bureaucrats want to keep doing things the same old way, adding little value but lots of costs.

I can only keep my sanity by remembering . . . advice to me years ago: 'there are limits to the stupidity any one man can prevent.' Off to Okinawa! Jim.

On November 20, 2002, in response to Dr. Roche's e-mail to Mr. Aldridge, Mr. William C. Bodie sent an e-mail to Dr. Roche in which he stated:

Good for you, boss. [Mr.] Aldridge may deny he's been weakening, but the smoke signals are thick. Aldridge interviewed with Anne Marie yesterday, and although he wouldn't comment on specifics of any deal and was keeping an open mind, he indicated that in general terms he would have concerns about leasing when/if buying was cheaper. That doesn't jibe with his previous support for the lease from a NPV [net present value]/cash flow management perspective. In addition, the spores seem to be pushing a 'what's the rush?' line: buying is cheaper (we 'exaggerate' the purchase cost of a green 767), therefore better; such a large expenditure requires more 'rigorous analysis' than the back-of-the-envelope assertions by the AF [Air Force], hence an AoA [analysis of alternatives]; the AF hasn't POM'ed [program objectives memorandum] for the lease, so how serious can we be? There is no 'urgent' need because the AF is starting to retire the E's next year even without an immediate replacement, so why can't we be more deliberative? Boeing will still be there, making airplanes, so what's the rush? Anyway, Airbus could make planes with enough American content if need be. I rebutted all these arguments with Jaymie [Durnan, The Special Assistant to the Secretary and the Deputy Secretary of Defense] (as you did with Pete [Aldridge]), but we might be in the 'power' phase with OSD [Office of the Secretary of Defense] on this issue. If anyone can talk sense to Aldridge, however, it's you.

On November 20, 2002, in response to Mr. William C. Bodie's e-mail, Dr. Roche sent an e-mail to Mr. William C. Bodie in which he stated:

Right. I'm relaxed on this one. They have to take the bureaucratic position. Jim

On November 22, 2002, Mr. John B. Sams, Jr. at Boeing sent an e-mail to Mr. Bob Gower at Boeing with a cc: to Mr. Jack M. House, Mr. Jerry D. Rejko; Mr. Darrell A. West, Mr. Richard C. Robinson, Mr. Steven R. Karrasch, and Mr. Thomas A. Owens at Boeing in which he stated:

For Boeing Only

Had a meeting with Gen [General] Essex and [REDACTED] today in DC [District of Columbia], with an excellent exchange covering where we are in process, and path forward.

b(6)

From an overall process, the breakout position for the players is as follows:

-AF [Air Force] -Sec [Secretary] Roche has assumed lead advocate role with OSD [Office of the Secretary of Defense] to push the lease. Personal correspondence to Pete Aldridge [Under Secretary of Defense for Acquisition, Technology, and Logistics] clearly establishes the AF desire for the lease, and pushes back against OSD 'bureaucrats' who are resisting change, #1 Advocate.

- OMB [Office of Management and Budget] - Quiet, with no pushback on the business case analysis - still have not resolved the 15 vs 9 year discount rate, but not a deal breaker. Concern with 'bargain basement' residual value of the purchase offer, and we are working with AF to reach a work around. Waiting for the political wind to establish their position.

OSD - Leadership as yet uncommitted, but Pete Aldridge thought to be a supporter. Sec Roche is engaged personally with Mr. Aldridge with all the arguments we have shared. The OSD Lease Working Group is pushing back hard on the support agreement portion of the contract, disagreeing with the AF on the number of hours they can fly the 767 Tanker--due to low crew ratio. OSD is engaging with a rationale that 'AF cannot afford to operate the aging KC-135Es, but can spend more to operate the 767 at twice the flying rate - and oh by the way, AMC [Air Mobility Command] doesn't have a plan to increase the crew ration [sic] to accomplish.' We are to provide a ROM [rough order of magnitude] ASAP [as soon as possible] of a [REDACTED]

[REDACTED] with a 'best break point for price' surge capability.

b(4)

Comments from Gen Essex:

- AF is committed to the lease. Believe the process is slowed awaiting Sec [Secretary] Rumsfeld [sic] to engage, so Mr. Aldridge is key to this process - SECAF [Secretary of the Air Force] engaged with him.

- OSD staffers went to [Senators] [sic] to delay for a year. The meeting was so bad ref [reference] F-22 they didn't even bring up the proposal to delay. Senators committed to lease.

- If Boeing is to engage with Congress, now is the time to keep the pressure up.

- OMB is waiting for Sec [Secretary] Rumsfeld [sic] to tell WH [White House] 'let's go' before they commit politically.

- Desire that Boeing stay the course, as AF and Senate are sticking to the FY 06 IOC [initial operational capability] necessity.

- Informal feedback from OSD is they have been told by Mr. Aldridge to 'wrap this up in two weeks.'

On November 23, 2002, Mr. Thomas A. Owens at Boeing forwards Mr. John B. Sams' e-mail to Mr. Andrew K. Ellis, Mr. Jerry A. Fergeson, Mr. John K. Wilson, and Mr. Phillip E. Ruter at Boeing in which he stated:

It twas [sic] a very interesting meeting.

On November 25, 2002, Mr. John B. Sams, Jr. at Boeing sent an e-mail to Mr. Jack M. House, Mr. John E. Ferguson, and Mr. Bob Gower at Boeing with a cc: to Ms. Laura S. Wollenberg, Mr. Darrell A. West, Mr. Jeffrey L. Thom, and Mr. Jerry D. Rejko at Boeing in which he stated:

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Boeing Sensitive....not for outside dissemination.

I agree with a meeting at the senior level....and the legal issues should be the center point of the discussions. Clearly, these issues are in the AF [Air Force] court, and in spite of Boeing providing all the information requested, and in our legal opinion needed, the issues have not moved. We are not dealing with decision makers on these issues, but the people who seek approval from others. What was glaring from today's discussion with SAF/GC [Air Force General Counsel] was their lack of understanding of the agreement that has been struck. Even in our meetings with Druyun/[an Office of Management and Budget official], SAF/GC was unprepared, bringing up issues settled long ago. It is evident from today's conversation there is little communication between the SPO [System Program Office] and the GC [General Counsel] office. To put a dynamic back in the system, the senior AF leadership has to be brought into the mix.

One last item, even from an AF perspective, this is the right thing to do. Sec [Secretary] Roche has come on line fully in support of a lease....if there is a show stopper, he should have been informed by his legal staff long before now....Dr. Sambur would like to know these issues remain, and light the fire. I do not believe identifying the issues with BGen [Brigadier General] Bowlds will get them resolved...must be above that level, and above the SAF/GC level to bring pressure to bare.

**December 2002.** On December 17, Mr. Andrew K. Ellis at Boeing sent an e-mail to Mr. Rudy De Leon at Boeing with a cc: to Mr. Jim Albaugh, Mr. Shephard W. Hill, Mr. Bob Gower, Mr. Robert D. Barnes, Mr. George K. Muellner, Mr. Thomas A. Owens at Boeing in which he stated:

[A]ll:

[S]ome quick notes from [J]im's meetings today. [P]ls. [sic] do not re-distribute this email.

[A]ss't. [Assistant] sec [Secretary] [A]ir [F]orce/[A]cquisition [M]arv [S]ambur

[S]ambur indicated that PA&E [Program Analysis and Evaluation] continuing to question [the] tanker deal - did [A]ir [F]orce get good enough price? [W]hat about operational suitability analysis? [Boeing] 767 tanker 'footprint' could be too large from operational perspective? [S]ambur was in process of writing email to under sec. [Under Secretary] [A]ldridge rebutting these arguments. [Dr. Sambur] said the time is right for 767 tanker lease, and wasn't concerned with any middle of market a/c [aircraft] a decade away. [He] had spoken to [A]ir [F]orce negotiating team last week - team's goal is final resolution (with [B]oeing) of last remaining terms and conditions by mid-[J]anuary. [S]ambur would push for resolution by [C]hristmas.

[S]ec. [Secretary] [R]oche

PA&E now a problem on tankers - arguments include price, 767 footprint and prospects for 'used 767s.' [B]oeing needs to do more on behalf of tankers in osd. PA&E working to convince [Under Secretary] [A]ldridge to delay -reengine while doing an AoA [analysis of alternatives]. [W]e should vector [H]ill support for tankers at [A]ldridge. [R]ecent corrosion problems demonstrated on EC-135 problem at [A]ndrews afb [Air Force Base] (note: am investigating further). [T]here may also be a systemic problem with engine struts - which raises further questions on issue of reengining. [Dr. Roche] said he is very comfortable with the price [A]ir [F]orce has on tanker, and very comfortable with overall deal. It is the right time to do this deal. [H]e is waiting until



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early [J]anuary to push on omb [OMB (Office of Management and Budget)] - wants to deal with the next [C]ongress, not the current. [Dr. Roche] had already a meeting with incoming sasc [SASC (Senate Armed Services Committee)] [a Senator] and staff. [B]oeing needed to work [W]hite [H]ouse and especially osd.

On December 18, 2002, [REDACTED] Chief of Mobility and Special Operations Forces, Weapons Systems Liaison Division, Office of Air Force Legislative Liaison sent an e-mail to Major General Leroy Barnidge, Jr., Air Force Director of Legislative Liaison in which he stated:

Maj Gen [Major General] Barnidge,

As you know, there has been some conversation about a possible meeting with [a Representative's] office (generated from the [Representative's] office through Mr. Powell Moore), OSD [Office of the Secretary of Defense] and one AF [Air Force] representative. OSD/LA [Office of the Assistant Secretary of Defense (Legislative Affairs)] [REDACTED] called [a congressional staffer] this morning to determine the [Representative's] desire for the meeting.

b(6) - OSD Redaction

[REDACTED] This eliminates the need for a meeting in which the AF, OSD, and the [Representative's] office were going to talk about the need for tankers right now, 767 ability to fill this need, and the 767 acquisition strategy.

b(5) - OSD Redaction

Way Forward: Where we are at right now is that OSD at the highest levels is getting together (DepSecDef, Mr. Aldridge, Dr. Zakheim, Powell Moore [Assistant Secretary of Defense (Legislative Affairs)], etc) to decide the DoD way forward. The decision will be to support the lease now or show why decision should wait until a later time. I am not sure when the meeting will occur, but waiting until March (the date previously given by OSD) is no longer an option. According to [REDACTED] this will be decided soon and it is more now an issue of OSD explaining why DoD shouldn't do the lease then [sic] it is the AF explaining why we should (a reversal of the normal process). I will keep you posted.

b(6) - OSD Redaction

On December 19, 2002, Mr. Jim Albaugh at Boeing sent an e-mail to Mr. Phillip M. Condit with a cc: to Mr. Rudy De Leon, Mr. Andrew K. Ellis, Mr. Michael M. Sears, and Mr. Shephard W. Hill at Boeing in which he stated:

Phil, I'm sure by now that you have read the Novak piece on tankers. Since that article hit this morning we have been actively engaged in DC [District of Columbia]. I have talked to Aldridge, Roche, Sambur, [a Representative] and [a congressional staffer] on the subject [Novak Article] and we have engaged [a Representative's] office as well as other members.

Aldridge's comment was that the article did not represent where OSD [Office of the Secretary of Defense] was on the tanker program. He went on to say that they did not have all the information yet needed to make a go forward recommendation. He made the point that he was concerned about [a Senator's] opposition to the program and the [he] also needed for OMB [Office of Management and Budget] to weigh in. He spoke of a series of questions that they had provided back to the AF [Air Force].

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\*Removed for reason stated in the initial asterisked footnote. (The reference is also on pages 16 and 185.)

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Interestingly enough in meetings with Roche, Jumper and Sambur on Tuesday, no such list of questions was mentioned. Pete [Aldridge] said that he was waiting for the AF to come back to them with answers. I told Pete we would move our team to DC and work around the clock to help if required. In addition, I told Pete that protecting cost and schedule was a growing problem for us.

[The Representative], as you might suspect, is very engaged. He also called Aldridge. His read on Pete was that the program was still very alive and that Boeing needed to aggressively work with the AF to answer questions. Rudy and [the Representative] are actively working to organize [C]ongress to push on both OSD and the Administration. [The Representative] has also issued a statement basically saying that he has talked to both Aldridge and Zakheim and that the program is still under active consideration. He also says in his release that [a White House official] favors the program.

In talking with Sambur, I quarried him on the list of questions for OSD. As mentioned, he had not previously mentioned any such list. It is now in our possession and there are six questions. Some have to do with the contract and some are operational and need to be answered by the AF. Sambur also said that they were going to put out a statement refuting the Novak article.

In meeting with [a congressional staffer], he reaffirmed [a Senators] support for the program. He has been in contact with Zakheim and I believe was very pointed in his comments on the need for OSD to work with and communicate with his committee on issues like this. [The congressional staffer's] comment also was that OSD is very concerned about the position Cambone [Mr. Steve Cambone, Under Secretary of Defense (Intelligence)] has taken on the program. [The congressional staffer] will continue to work the program on our-behalf.

Our contacts with [a Representative] indicate that he is ballistic over the article and that he takes it as a personal affront. The [Representative] met with [the White House official] earlier this week and directly raised the tanker issue and the need to get on with the deal.

I will issue a statement later today on the status on [sic] the Program. I plan on remaining in DC until Rudy and I are satisfied we have all the actions in place to get this deal done and the Novak article defused.

On December 19, Mr. Andrew K. Ellis at Boeing sent an e-mail to Mr. Jim Albaugh at Boeing in which he stated:

-- [S]poke with [congressional staff]. sac [Senate Appropriations Committee] very unhappy with osd [OSD (Office of the Secretary of Defense)] on this issue. [E]ngagement with osd had already begun.

-- [S]poke with [a Representative] several times. [H]e has put out a good statement. [The Representative] is working with other members, many of who are making calls to omb [OMB (Office of Management and Budget)], [W]hite [H]ouse and osd (comptroller, AT&L, L/L [Under Secretary of Defense (Comptroller); Under Secretary of Defense for Acquisition, Technology, and Logistics; and Assistant Secretary of Defense for Legislative Affairs]).

-- [A Senator] pulling together a bipartisan coalition in [S]enate to put out letter.

-- [W]e have re-engaged with [a Representative]. [N]ovak piece is a direct attack. [H]e did meet with [a White House official] earlier this

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week; he did raise tankers and reportedly got a positive response (undefined, at least to us) out of [the White House official].

-- [H]ave spoken with [M]arv [S]ambur several times -- we are prepared to work 24/7, over the holidays, to resolve any/all open issues.

-- [W]e are also working a meeting with [S]teve [C]ambone [Under Secretary of Defense (Intelligence)] in an effort to confront head on whatever issues PA&E [Program Analysis and Evaluation] may have. [I] am prepared to take this meeting as early as tomorrow, or any day next week.

-- [A]lready speaking with senior consultants who have relationship with [Secretary] [R]umsfeld ([J]eremiah).

-- [W]hatever you need from us, or whatever else you think we can do to help, let me know.

**January 2003.** On January 23, Mr. Andrew K. Ellis at Boeing sent an e-mail to Mr. Jim Albaugh at Boeing in which he stated:

[J]im:

[G]ood idea to touch base with [Dr.] [R]oche on tankers.

-- as always, thank [S]ecretary for his vision and leadership. [H]is words in recent [T]ony [C]apaccio/[B]loomberg story (PA&E [Program Analysis and Evaluation] thinks tanker should be 17% cheaper) were strong, etc, etc, etc

-- [B]oeing doing lots of stuff:

-- [Y]ou have been dialoguing with [Mr.] [A]ldridge. [P]lan to see him next week.

-- [Y]ou are on [C]ambone's schedule next week. ([H]as [R]oche talked to [C]ambone at all on tankers?)

-- [F]ogelman and [J]eremiah are consultants (both also on [D]efense [P]olicy [B]oard) -- both engaging in osd [OSD (Office of the Secretary of Defense)] circles.

-- [R]udy/[A]ndy met with [B]ill [S]chneider. [S]chneider very supportive. [W]ill work issue in osd.

-- [I]nterested members are increasing their contacts with osd and [W]hite [H]ouse.

-- [H]ave generated member interest/press in a number of places with contract announcements over past 2 months (NY, PA, [a Representative] is about to announce a contract, [Representatives], etc, etc)

-- [N]ational [G]uard engaging (through [P]aul [W]eaver, a consultant, who is close to [R]oche) at state, local and federal level.

-- [U]nion strategy in play (aimed at [E]xecutive [B]ranch as well as at [C]ongress --)

-- [W]e have activated key suppliers (e.g., [S]miths, GE, PW, [V]ought, etc) who are working their own state, local and federal contracts.

-- [A Representative] recently had very direct conversation with [White House officials] on moving forward.

-- [W]e are in touch with [a White House official] and [W]hite [H]ouse political operation -- they see increased pressure and realize there is a political downside to not moving forward with tankers.

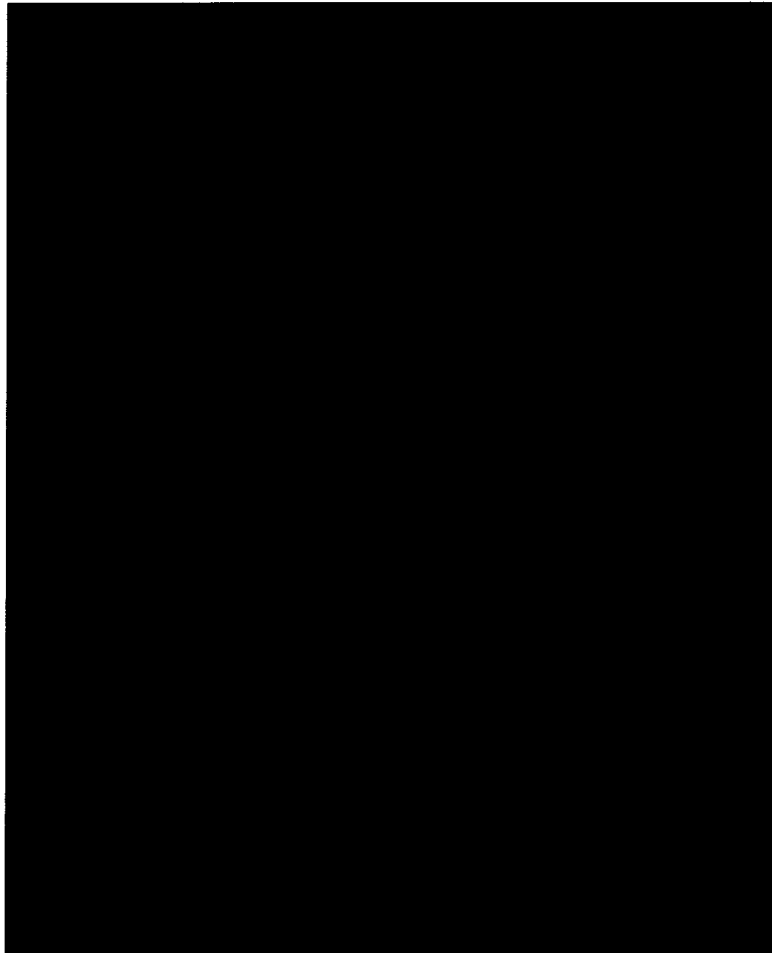
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-- [W]e've ghost written several op-eds: former CINCPAC [C]ommander in Chief, Pacific Command [A]rchie [C]lements will have one in [N]avy [T]imes (and maybe [A]ir [F]orce [T]imes?) within next 2 weeks and we are likely to have KS/WA members have one published in local papers. [W]orking to get both in [E]arly [B]ird when published.

[W]ould be interesting to know how [R]oche is engaging with osd (if at all) and omb [OMB (Office of Management and Budget)].

[H]ow can we help him on either front?

On January 30, 2003, General John Jumper, Air Force Chief of Staff sent an e-mail to Dr. Roche in which he stated:



b(5) - OSD Redaction

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\*Removed for reason stated in the initial asterisked footnote. (The reference is also on pages 17, 188, and 210.)

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On January 31, 2003, in response to General John Jumper's e-mail, Dr. Roche sent an e-mail to General Jumper in which he stated:

And, I had at Himself on the deal in the morning, noting as I poin[t]ed to them that, unlike businessmen who would understand how good an opportunity this was, these Corporate Staff bureaucrats (Dov and Stevie) can't get it. Don asked if I was special pleading. I said 'yes.' And, further, would continue to do so. [Lawrence] DiRita [Principal Deputy Assistant Secretary of Defense (Public Affairs)] announced that my comments 'were brought to you by the Boeing Company.' I didn't rip his heart out. Don had been programmed by the Tall Spore and asked about 'opportunity costs', etc to which the Spores jumped. But, when asked what was in the budget, I had the chance to take a shot at the TS [Tall Spore] by telling Don that we wouldn't beartrap [sic] him by assuming that he approved the lease; thus, the budget had a buy. Pete then told him the 'when' of the buy, and Don said: 'Not soon enough!' Through the day, I have been asked by the Spores to consider a lease of 50 with an option for 50, and a 67/33 split. Each time I remind them that these hairbrained [sic] ideas would only be more expensive. Don asked that the decision be delayed until after he testified!!! Note: he doesn't want to touch it. But, there is no doubt that he understands our position.

b(5) - OSD Redaction

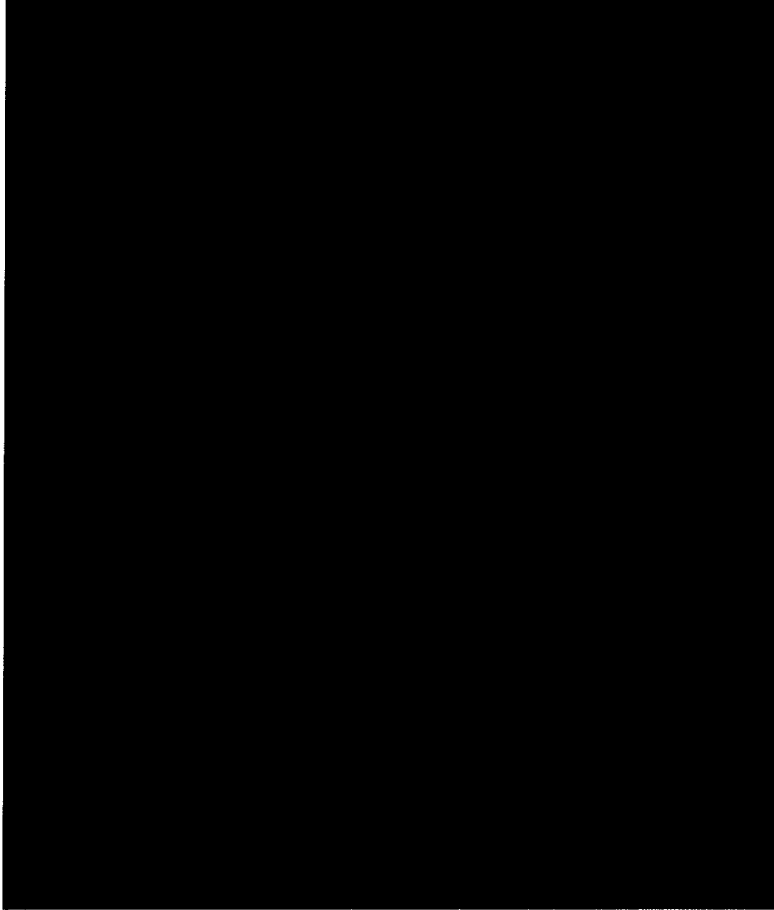
**February 2003.** On February 21, Dr. Sambur, Assistant Secretary of the Air Force (Acquisition) sent a memorandum, "KC-767 Lease Proposal," to Mr. Aldridge, Under Secretary of Defense for Acquisition, Technology, and Logistics; and Dr. Zakheim, Under Secretary of Defense (Comptroller) with a cc: to Dr. Spruill, Director, Acquisition Resource and Analysis, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics; and Dr. Schroeder, Deputy Under Secretary of Defense (Resource Planning/Management), Office of the Under Secretary of Defense (Comptroller). In the memorandum, Dr. Sambur stated that:

The Air Force's proposal to lease 100 KC-767s has truly been a 'learning journey' for all of us that have been working this new and innovative approach to acquiring needed capability for our warfighters. Throughout the review process, the OSD [Office of the Secretary of Defense] and OMB [Office of Management and Budget] staffs have challenged us with many thought-provoking questions, several of which have caused us to look deeper into the unique characteristics of leasing. One of these characteristics that seemed only secondary at first has now emerged as a significant, primary lease advantage: the multiyear nature of the contract itself.

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\*Removed for reason stated in the initial asterisked footnote. (The reference is also on page 18.)



b(5)

**March 2003.** On March 14, Dr. Dov S. Zakheim Under Secretary of Defense (Comptroller) sent a memorandum, "Air Force Boeing 767 Tanker Lease Decision Memorandum," to Mr. Aldridge, Under Secretary of Defense for Acquisition, Technology, and Logistics. In the memorandum, Dr. Zakheim stated that:

I have reviewed the draft decision packages on the KC-767 program and the comments to the packages submitted by the Principal Deputy Director, Program Analysis and Evaluation (PA&E). I support a number of the recommended changes proposed by the Principal Deputy Director (PA&E), and offer the following comments.

- I strongly recommend that a new approach be considered by the Department in the negotiations with Boeing. The goal of these negotiations should be to reduce the price of the aircraft, regardless of the option selected-purchase or lease. No less important, I believe that you personally should lead the negotiations (my office and I will be happy to be of any assistance you deem to be useful).
- The reference to waiving termination liability under the purchase option implies, but does not explicitly state, that the tanker acquisition will be incrementally funded, which also will require a waiver to the full funding policy. (If the procurement alternative is fully funded, the termination liability waiver would be unnecessary)

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because the only termination liability would be the small amount associated with the advance procurement.) Given the magnitude of this acquisition, the decision to waive both the full funding policy and the termination liability policy should be placed in a separate paragraph.

- In his comments, the Principal Deputy Director (PA&E) includes a statement in the purchase option that the procurement of the KC-767 should begin in FY05. That statement is unnecessary, given PA&E's next statement which asserts that the KC-767 aircraft should be procured and delivered as quickly as possible using a multiyear procurement strategy.
- Regardless of the method of acquisition of the aircraft, I strongly believe that the KC-767 program should be designated as an ACAT [Acquisition Category] ID Major Defense Acquisition Program.

**April 2003.** On April 7, Mr. Andrew K. Ellis at Boeing sent an e-mail to Mr. Jim Albaugh at Boeing with a cc: to Mr. George K. Muellner, Mr. Bob Gower, Mr. Shephard W. Hill, Mr. Thomas A. Owens, and Mr. Rudy F. De Leon at Boeing in which he stated:

[Q]uick notes from [J]im's meeting with sec. [Secretary] Roche --  
PLEASE DON'T REDISTRIBUTE EMAIL

-- secdef [SECDEF] told [A]ldridge/[A]ir [F]orce this weekend to proceed with negotiations to finalize the tanker deal. [Emphasis added.]

-- [W]e saw gen. [General] [J]umper in the hall who confirmed that he had raised issue with secdef this weekend -- i.e., we've just got to get on with it.

-- [F]ocus from here out will be on 200 tankers, not 100.

-- IDA [Institute for Defense Analyses] focusing/hung up on cost of combi.

-- [S]teve [C]ambone appears to no longer be involved in dialogue.

--[A]ldridge will be more directly involved in negotiations and descoping dialogue in days/weeks ahead.

-- [A]ldridge/[W]olfowitz will interface with [W]hite [H]ouse and omb [OMB].

-- sec. [Secretary] [R]oche comfortable with more OSD involvement -- views it as necessary 'top cover' for [A]ir [F]orce. [W]orks better in [W]hite [H]ouse and will help on [C]apital [H]ill.

-- [N]eed to look at 'deferring' some requirements -- cited example that is increasingly used of '3 hr. [hour] combi.' [W]hy not 24 hour? [N]eed to be smart. [S]hould not defer requirements that will require significant structural mods later.

-- gen. [General] [H]andy had told sec. [Secretary] [R]oche that he thought all requirements needed. gen. [General] [C]orley observed that gen. [General] [H]andy understood what was needed to move ahead and that his staff was working closely with [M]arv [S]ambur on requirements.

-- [P]ete [A]ldridge placed call to [J]im [Roche] while we were in the meeting. [E]xpect [J]im and [P]ete to talk by day's end.

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On April 10, 2003, Mr. Jim Albaugh at Boeing sent an e-mail to Mr. Phillip M. Condit at Boeing with a cc: to Mr. Michael M. Sears, Mr. Rudy F. De Leon, Mr. Andrew K. Ellis, Mr. Bob Gower, and Mr. Shephard W. Hill at Boeing in which he stated:

Phil, we had a curve thrown at us today by Mike Wynne [Principal Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics]. Mike asked the AF [Air Force] for a \$100M [million] tanker. The AF is livid with this. At a \$100M they get minimal capabilities and an airplane that cannot be financed since it is not a freighter. I have talked to both [Drs.] Sambur and Roche today and armed them with a descoped \$139.5M version which they like and info on why any option at a lower price doesn't work.

We don't think Pete Aldridge is on board with what Mike is asking for. Pete was out of the office today. Expect to talk to him tomorrow.

The saga continues.

On April 15, 2003, Mr. Michael W. Wynne, Principal Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics sent an e-mail to Mr. Jaymie Durnan, The Special Assistant to the Secretary and the Deputy Secretary of Defense with a cc: to Dr. Dov S. Zakheim, Under Secretary of Defense (Comptroller); Mr. Pete Aldridge, Under Secretary of Defense for Acquisition, Technology, and Logistics; and Mr. Wayne A. Schroeder, Deputy Under Secretary of Defense (Resource Planning/Management), Office of the Under Secretary of Defense (Comptroller). In the e-mail, Mr. Wynne stated:

As I mentioned this morning, I had shaped the program by working the configuration and the potential financing hard with the 100 airplane add-on. Pete Aldridge had asked the question as to where we were on the reconciliation to the IDA [Institute for Defense Analyses] values, and I received from the Air Force their assessment, but not from IDA.

This afternoon, I took the reshaped program to OMB [Office of Management and Budget]; and they opined that this was a reduced price, but wondered why we had to change the configuration to achieve even remotely close to the IDA values [REDACTED] which were for the all up Tanker that the Air Force had sold them on earlier. They were not willing to compromise on that configuration.

I probed about consequences to a broken negotiation regarding the lease, and got in return that if this went away, and was instead a multiyear in FY05 or FY06 they would be comfortable with that, and so would the White House. They also indicated that the IDA values should be reconciled to that business deal as well.

That re-set the baseline, and so here is our current strategy:

1. Continue to reconcile to the IDA values, recognizing that for us they represent the top end of our negotiation.
2. Re-set the configuration baseline closer to or at the Air Force desired configuration.
3. Organize a trip to Boeing if there is any chance that they would agree to a simple price reduction, to illustrate:

The Air Force Agreed Configuration reduction resulted in a price of [REDACTED] the IDA range for that configuration was [REDACTED]

4. We will require a minimum reduction of [REDACTED] or we have a broken negotiation.



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5. Notify OMB and announce either way.

This will not be easy, given the long history on this deal, and the consequences of a sudden change of heart. I would have expected that the concessions should have and could have come as a result of configuration changes which would have provided some cover for both teams. Recall, I gave them that opportunity over the past two weeks. In that absence....

We should afford Boeing this last opportunity, and then call it a day for the lease.

On April 15, 2003, Mr. Michael W. Wynne forwarded his e-mail to Mr. Jaymie Durnan on to Dr. Sambur with a cc: to Dr. Nancy L. Spruill, Director, Acquisition Resource and Analysis, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics and stated:

Marv; News, some good, some bad. The good news is that OMB [Office of Management and Budget] stood behind the configuration that you desired, or as close to it as we could get. The bad news is that they also stood behind the IDA [Institute for Defense Analyses] valuation, which was very close to their own, and will likely not get off that. They want a simple price concession from Boeing. Period. Look at the strategy below, and unless you want to go with me and give this a shot, I think this is over.

On April 15, 2003, Dr. Sambur forwarded Mr. Wynne's e-mail to Mr. Jim Albaugh, Senior Vice President for Boeing Defense Systems with no comments.

On April 23, 2003, Mr. Wynne met with the Office of the Secretary of Defense Leasing Review Panel for the lease of the Boeing KC-767A tanker aircraft as discussed in the following synopsis:

Mr. Wynne did a nice job keeping the meeting non-confrontational, and exploring the factual bases for the differing Air Force and IDA [Institute for Defense Analyses] positions. Differences still exist in a number of areas, but no real mistakes are apparent, merely differences in professional judgments (e.g., Air Force uses commercial indexes, IDA uses DoD indexes). There seems to be only one area (cost of capital) that OSD [Office of the Secretary of Defense] will overrule IDA; this will move OSD roughly [redacted] closer to the Air Force position.

Afterwards, Dr. Sambur advised the team that the Air Force is in trouble. It appears that a consensus now exists between OMB and the White House that the lease is only supportable at [redacted] per aircraft. Reportedly, Mr. Wynne has this information and shared it in confidence with Dr. Sambur.

b(5) - OSD Redaction

Bottom line: It appears the Air Force has to head back to the negotiation table with Boeing. My concern is that the SPO [system program office] has effectively lost credibility when IDA/OSD overruled the negotiated settlement they already reached. Unless someone from senior leadership gives the SPO top cover and authority, I doubt that Boeing will negotiate with them. The Boeing local office is already saying that they want to negotiate only with IDA.

The saga continues...

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On April 24, 2003, Dr. Sambur sent an e-mail to Mr. Wynne with a cc: to Dr. Roche and Mr. Aldridge in which he stated:

Mike  
[Mr.] Albaugh [Boeing] visited me yesterday and asked about the status of the lease. I told him that we were still debating the IDA [Institute for Defense Analyses] analysis. IDA based their analysis on third party estimates that assumed knowledge of Boeing drawings (IP). He said that Boeing never gives away its drawings and these 3rd party vendors do not have the ability to FAA [Federal Aviation Administration] certify their work. In addition, the SPE [Senior Procurement Executive] is taking the plane from Boeing and unless the AF [Air Force] wants to certify the tanker and get Boeing out of the loop, he does not see how the lease would work. He stated that there is tremendous risk in his FIXED PRICE number (note that IDA does not have fixed price bids) and if everything went PERFECTLY, he would make money. He will not reduce his price to meet the IDA number and will recommend to the Boeing Board in mid May that the effort stop. Marv

On April 24, 2003, in response to Dr. Sambur's e-mail, Dr. Roche sent an e-mail to Dr. Sambur and Mr. Wynne with a cc: to Mr. Aldridge in which he stated:

And I don't blame him. This assumption that Boeing is cheating the American taxpayers is not helpful. I am struck that not a single critic has stepped forward to assume the program at a fixed price. What a waste of effort! Pete, maybe it's time to just wrap up this initiative. Jim

On April 24, 2003, Dr. Sambur forwarded his e-mail with Dr. Roche's comments to Mr. Jim Albaugh at Boeing in which he stated:

Jim  
Please treat as sensitive. I documented your visit (first email) to create a sense of urgency. Marv

On April 24, 2003, Mr. Jim Albaugh forwarded Dr. Sambur's e-mail with Dr. Roche's comments to Mr. Andrew K. Ellis at Boeing in which he stated:

Info

**May 2003.** On May 3, Mr. Jim Albaugh sent an e-mail to Dr. Sambur with a cc: to Mr. Bob Gower in which he stated:

Marv, per our conversation attached is a white paper on why we believe a Cost Plus Contract would not be acceptable for the Tanker Procurement.

As an alternative we propose an approach that would provide a green aircraft at a most favored customer price and a limit on the profitability for the A/C [aircraft] mod [modification] work. Boeing would accept the upside risk in the event of cost overruns with under runs above a 15% ROS [return on sales] for the A/C mods returned to the USG [U.S. Government].

I believe with this approach we can make a very good case that the USG is getting a fair deal on this procurement.

I will be calling you mid-morning on Sunday.

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On May 3, 2003, Dr. Sambur forwarded Mr. Albaugh's e-mail to Dr. Roche and Mr. Aldridge and stated:

I have had discussions with Jim Albaugh about the mixed cost plus and fixed price approach discussed on Friday. Boeing will not go along with this approach for the following reasons: Boeing can not give us a better price on the green A/C [aircraft] because we already have the 'most favored customer' clause. If they were to lower their price to us, it would mean that they would have to give a rebate to everyone else that has this clause. That is a non-starter for Boeing. The cost plus aspect of the modifications is also a non-starter because the target price [redacted] - green A/C most favored price) has, by Boeing calculation, negative margin. Thus, even with a cost plus contract they lose money. In addition, Boeing believes that the cost plus contract is not permitted by the congressional language . . . . To resolve the underlying perception that Boeing is 'ripping us off' and to live within the congressional language, they propose a fixed price contract of [redacted] that caps profit at [redacted] for the mods [modifications]. If at the end of the day, the true mod cost with [redacted] profit is less than [redacted] - most favored green A/C), they refund money to the AF [Air Force]. If the true mod cost plus [redacted] profit is more than [redacted] - most favored green A/C), Boeing eats the difference. Boeing will let us completely audit all costs associated with the mods (see attachment 2).

I like this approach except for the 'give back' provision. This give back provision requires the AF to refund [redacted] if we do order a total of 200 tankers in the future. Without this provision the price is [redacted]. I think we can get a small reduction in this price [redacted] if we commit to go forward. I asked Jim to call you both on Monday to tell you that Boeing will not accept the cost plus deal and to explain his offer. If you feel it is appropriate, you can ask about the [redacted] to [redacted] additional reduction especially if we can give him some assurance that we need to buy 200 tankers.

b(4) - OSD Redaction

On May 3, 2003, Mr. Paul Weaver, a consultant to Boeing sent an e-mail to Dr. Roche in which he stated:

Sir,

I just got off the phone on a conference call with Jim [Albaugh] and Rudy [De Leon]. They got your message, loud and clear. Jim is putting together a proposal, with guarantees that I think you will like. They will conference again this afternoon with the final numbers and then Jim will give you a call with a proposal.

[redacted]

b(5) - OSD Redaction

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\*Removed for reason stated in the initial asterisked footnote. (The reference is also on page 20.)

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On May 7, 2003, Mr. Jim Albaugh at Boeing sent an e-mail to Mr. Phillip M. Condit at Boeing with a cc: to Mr. Rudy F. De Leon, Mr. Randall R. Simons, Mr. Michael M. Sears, Mr. Bob Gower, Mr. Shephard W. Hill and Mr. George K. Muellner at Boeing in which he stated:

Phil, we had a flurry of activity today. Marv Sambur called and said that once again Mike Wynne wanted us to take a \$125M [million] an airplane tanker deal with CPFF [cost plus fixed fee] on the airplane mod [modification] portion. We replied back that a CPFF contract had little likelihood of being financeable and that at [REDACTED]

b(4)

[REDACTED] Marv supports this position.

Met with [Dr.] Roche and [General] Jumper later in the day. They both think we have a fair deal on the table. They are concerned about where [Mr.] Wynne is on this deal especially in light of [Mr.] Aldridge being out of the country. Roche believes that Wynne may take the \$125M deal to the DepSecDef [Deputy Secretary of Defense] and wanted to know if we would 'blow in the USAF [U.S. Air Force]' by accepting such a deal. I assured him we would not.

Rudy has engaged [a Representative] who has a call into Aldridge. We meet with Norm at 10:30 in the AM.

On May 7, 2003, in response to Mr. Jim Albaugh's e-mail, Mr. Bob Gower at Boeing sent an e-mail to Mr. Jim Albaugh at Boeing with a cc: to Mr. Randall R. Simons; Mr. Shephard W. Hill; Mr. George K. Muellner; Mr. Jack M. House; Mr. John B. Sams, Jr. at Boeing in which he stated:

Jim,

[REDACTED] called and said this could end up in a decision memo by Friday. He indicated he saw the memo and it showed the green aircraft at fixed and the modification cost plus.

b(6)

Can we get to DepSecDef [Deputy Secretary of Defense] before [Mr.] Wynne goes to him to make sure he does not approve a Wynne end run prior to USAF [U.S. Air Force] / Boeing input?

As a side note, we continue to work to see if we can make a CPFF [cost plus fixed fee] work but there are some real challenges and we would need waivers and several caveats. Some of the caveats would cause political issues. We will keep working but in any case if we ever go CPFF we can not cap the price. If this is CPFF, the USAF will increase our cost over the commercial baseline currently assumed. We need the USAF to have an incentive to control cost as well.

On May 7, 2003, Mr. Paul Weaver, a consultant to Boeing sent an e-mail to Dr. Roche in which he stated:

MR. SECRETARY: Rudy [De Leon] just called me and said that Marv Sambur was getting beat up by Mike Wynn[e] again concerning the \$125M [million] dollar number per aircraft. Rudy would like to know if he needs to do anything like calling in the big guns to help out. I told him I would query you to get your advice.  
God Bless,  
Paul.

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On May 7, 2003, in response to Mr. Paul Weaver's e-mail, Dr. Roche sent an e-mail to Mr. Weaver in which he stated:

It's time for the big guns to quash Wynne! Boeing won't accept such a dumb contract form and price, and Wynne needs to 'pay' the appropriate price! Jim.

On May 9, 2003, Dr. Roche sent an e-mail to Ms. Robin Cleveland, Office of Management and Budget, the subject of which was [REDACTED] resume and cover letter attached for export. In the e-mail, Dr. Roche stated:

b(6)

Be well. Smile. Give tankers now (Oops, did I say that? My new deal is terrific.) ☺  
Jim

On May 23, 2003, Mr. Aldridge, Under Secretary of Defense for Acquisition, Technology, and Logistics sent a memorandum, "Air Force Boeing 767 Tanker Lease Decision Memorandum," to the Secretary of the Air Force. In the memorandum, Mr. Aldridge stated that:

After a comprehensive and deliberative review by the Leasing Review Panel, the Secretary of Defense has approved the Air Force's proposal to enter into a multiyear Pilot Program for leasing general purpose Boeing 767 aircraft under the authority in section 8159 of the Department of Defense Appropriations Act, 2002. While the currently approved plan will provide for delivery of a total of 100 KC-767 aircraft, approximately 67 of which will be delivered in the Future Years Defense Program (FYDP), it is the intent of the Department to go beyond the initial 100 aircraft as we begin the recapitalization of the airborne tanker fleet.

The Leasing Review Panel compared the merits and shortcomings of both leasing and purchasing the aircraft, and the Secretary determined that the lease option best satisfied military needs and was preferable for two primary reasons. First, the lease will require a lesser initial outlay in the FYDP. Second, leasing accelerates the delivery of aircraft.

The Secretary of Defense approved this lease proposal contingent upon securing a waiver of the requirement to fund termination liability and approval from the Office of Management and Budget. While the KC-767 program is in its initial stages, I am designating the program as an ACAT [Acquisition Category] ID Major Defense Acquisition Program. In the interests of the government and the taxpayer, I direct the Air Force to work with Boeing to negotiate the best possible total purchase price not to exceed \$131 million per unit and lease unique costs, which the Special Purpose Entity will be responsible for paying to Boeing, and which will form the basis for government payments under the lease. The total purchase price shall include a firm, fixed-price for the 'green' aircraft (767-200C) and for modifications and additional tanker equipment on the green aircraft. The Return on Sales (ROS) shall not exceed [REDACTED] for the green aircraft or for the additional equipment; and the configuration shall meet the minimum set of requirements to satisfy the Air Force's mission. I further direct the Air Force to work with the Office of the Under Secretary of Defense (Comptroller) and the Office of the Director, Program Analysis & Evaluation, to finalize offsets in the FYDP to fully fund the lease plan.

b(5)

In addition, as mandated by the legislation, the Air Force shall submit a report to the Congressional Defense Committees before signing the lease

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contract, and report back to Congress one year after the first delivery and annually thereafter.

Finally, the Air Force shall develop a long-range recapitalization plan beyond the current lease proposal and present that plan to the Secretary of Defense by 1 November 2003.

On May 27, 2003, after about 2 years as the Under Secretary of Defense for Acquisition, Technology, and Logistics, Mr. Aldridge retired from the Government. Mr. Michael W. Wynne became the Acting Under Secretary Defense for Acquisition, Technology, and Logistics.

On May 28, 2003, Mr. Michael W. Wynne, Acting Under Secretary of Defense for Acquisition, Technology, and Logistics sent a memorandum, "Air Force Boeing 767 Tanker Lease Decision," to the Director, Office of Management and Budget. In the memorandum, Mr. Wynne stated that:

After a comprehensive and deliberative review by the Leasing Review Panel, the Secretary of Defense has approved the Air Force's proposal to enter into a multiyear Pilot Program for leasing general purpose Boeing 767 aircraft under the authority in section 8159 of the Department of Defense Appropriations Act, 2002. The Secretary has approved the lease proposal contingent upon securing a waiver of the requirement to fund termination liability and approval from your office.

There is consensus within the Department that we must start recapitalizing the airborne tanker fleet as soon as possible, and that re-engining the KC-135E aircraft will not extend their service life. The combined effects of aging, the surge in demand due to the Global War on Terrorism and recent conflicts have increased the need to replace the KC-135. The Leasing Review Panel compared the merits and shortcomings of both leasing and purchasing KC-767 aircraft, and the Secretary determined that the lease option best met the needs of the Air Force and was preferable for two primary reasons. First, leasing accelerates the delivery of aircraft, satisfying the recapitalization need. Second, leasing contributes to our goal of program stability by minimizing impact to on-going programs.

The KC-767 program has been designated as an ACAT [Acquisition Category] ID Major Defense Acquisition Program. In the interests of the government and the taxpayer, the Air Force has been directed to work with Boeing to negotiate the best possible total purchase price not to exceed \$131 million per unit and lease unique costs, which the Special Purpose Entity will be responsible for paying to Boeing, and which will form the basis for government payments under the lease. The total purchase price shall include a firm, fixed-price for the 'green' aircraft (767-200C) and for modifications and additional equipment on the green aircraft. The Return on Sales (ROS) shall not exceed [REDACTED] for the green aircraft or for the additional equipment; and the configuration shall meet the minimum set of requirements to satisfy the Air Force's mission.

b(5)

The Air Force has been directed to submit a report to the Congressional Defense Committees before signing the lease contract and report back to Congress one year after the first delivery and annually thereafter.

While the currently approved plan will provide for delivery of a total of 100 KC-767 aircraft, approximately 67 of which will be delivered in the FYDP, it is the intent of the Department to go beyond the initial 100 aircraft as we begin the recapitalization of the airborne tanker fleet. The Air Force has been directed to develop a long-range recapitalization

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plan beyond the current lease proposal and to present that plan to the Secretary of Defense by 1 November 2003.

**June 2003.** On June 20, Mr. Kenneth J. Krieg, Director, Program Analysis and Evaluation, sent a memorandum, "PA&E [Program Analysis and Evaluation] Analysis of KC-767A Lease Program," to the Mr. Wynne, Acting Under Secretary of Defense for Acquisition, Technology, and Logistics, and to Dr. Dov Zakheim, Under Secretary of Defense (Comptroller). In the memorandum, Mr. Krieg stated that:

This memorandum provides a summary of the A-94 and A-11 analyses developed by PA&E [Program Analysis and Evaluation] in response to taskings from the leasing review panel and subsequent leasing working group meetings. The analyses are based on the latest version of the draft 767 leasing contract provided to my office on June 17, 2003.

Our A-94 analysis indicates that the provisions of the draft KC-767A aircraft lease cost more than the equivalent purchase of tanker aircraft. Measured in then-year dollars, lease costs exceed purchase costs by \$6.0B [billion]; by \$5.1B [billion] if measured in constant FY02 dollars; or by \$1.9B [billion] if measured in terms of net present value. Our A-94 analysis is based on the following key assumptions: 1) For the leasing scenario, that the Department purchases the KC-767A tanker aircraft at the end of the lease period; and 2) for the direct purchase scenario, that the Department seeks and receives Congressional approval for a multiyear procurement of 100 aircraft. We find that leasing provides no inherent economic efficiencies relative to direct purchase of tankers and is, therefore, more expensive in the long run.

Our analysis also shows that the current draft lease fails to meet the requirement of OMB [Office of Management and Budget] Circular A-11 that the present value of the lease payments be less than 90 percent of the fair market value at lease inception. Our calculations show that lease payments are more than 93 percent of fair market value, exceeding the requirements for the definition of an operating lease. This analysis is based on a fair market value of \$131 million (CY02\$). In addition to OMB Circular A-11 requirements, Section 8159 of the FY02 appropriations act includes a requirement that the present value of the lease payments be less than 90 percent of the fair market value at lease inception.

A more detailed supporting analysis will be provided under separate cover.

On June 20, 2003, Major General William Hodges, Director of Global Reach Programs, Office of the Assistant Secretary of the Air Force (Acquisition) sent an e-mail to Dr. Sambur with a cc: to Lieutenant General John Corley, Principal Deputy (Acquisition), Office of the Assistant Secretary of the Air Force (Acquisition); [REDACTED], Office of the Assistant Secretary of the Air Force (Acquisition); [REDACTED], Office of the Assistant Secretary of the Air Force (Acquisition); [REDACTED], Office of the Assistant Secretary of the Air Force (Acquisition); [REDACTED] Chief, Mobility Division, Office of the Air Force Director of Global Reach Programs; [REDACTED] Deputy Chief, Mobility Division, Office of the Air Force Director of Global Reach Programs; [REDACTED], Executive Officer, Office of the Air Force Director of Global Reach Programs; and [REDACTED] Office of the Air Force Director of Global Reach Programs in which he stated:

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DR. SAMBUR: I received a call from [REDACTED] who works for Rick Burke in PA&E [Program Analysis and Evaluation]. HE stated he had just delivered a memo to Dr. Roche's office. I asked him if he could share what they had sent and he attached the memo in two files, below.

b(6)

This was a total surprise and not ever mentioned in any of our discussions with Dr. Spruill or Dr. Schroeder. It appears that they have simply listed all their positions on the report and none of the accommodations reach with the leasing working group. Apparently, they no longer want to be part of the process.

I propose that we provide you with an email containing our counterpoints on their assertions, followed by a proposed response from Dr. Roche back to PA&E.

On June 20, 2003, Dr. Sambur forwards Major General William Hodges' e-mail to Dr. Roche and stated:

BOSS: This is getting ridiculous!!!!  
Marv.

On June 22, 2003, in response to Dr. Sambur's e-mail, Dr. Roche forwards Major General William Hodges' e-mail to Mr. Wynne with a cc: to Dr. Sambur and stated:

MIKE: Ever since Pete [Aldridge] left, the bureaucrats who opposed the 767 lease have come out of the woodwork to try to kill it-yet, once again. Mike, I won't sign a letter that makes the case that we shouldn't lease the planes. Ken Krieg's memo attached is a cheap shot, and I'm sure has already been delivered to the enemies of the lease on the Hill. It was a process foul. And Ken needs to be made aware of that BY YOU!

I can't control the corporate staff on acquisition issues. Mike, this is their way of asserting dominance over you. I know this sounds wild, but animals are animals. Pete [Aldridge] had beaten them down. Now, they are taking you on. I'm sorry. Expecting professional behavior from them is something I gave up on a while back. Among other things, they are about to cause us to embarrass SecDef [Secretary of Defense], who having approved the lease, will now have to explain why his staff is destroying the case for it. I'll do whatever I can to help you, Mike, but it's your job to get the corporate staff under control. If not now, then they will overrun you whenever you 'don't behave' according to their desires. This is the same game they have played for years. They and OMB [Office of Management and Budget] are trying to set the Air Force up to be destroyed by [a Senator] WITH OSD [Office of the Secretary of Defense] AND OMB ARGUMENTS. As you might imagine, I won't give them the chance, but I will make it clear who is responsible to Don [Rumsfeld]. I refuse to wear my flack jacket backwards!

Sorry, Shipmate. Jim.

On June 23, 2003, in response to Dr. Roche's e-mail, Mr. Wynne sent an e-mail to Dr. Roche with a cc: to Dr. Sambur in which he stated:

JIM: Thanks for your note -- I see this as an OSD [Office of the Secretary of Defense] discipline problem myself. I will be taking it to the Secretary as well--better he hear it from two sources.  
Mike



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On June 23, 2003, Mr. Wynne sent an e-mail to Mr. Kenneth J. Krieg, Director, Program Analysis and Evaluation in which he stated:

KEN: If the purpose of your note is to run acquisition from PA&E [Program Analysis and Evaluation], we have a problem that needs immediate resolution. I have plenty of problems, but being 'fragged' didn't seem to be one of them, now I worry. If the SecDef [Secretary of Defense] wants to kill this he will, so far not--your note was not helpful to either one of us. I will continue to make decisions that have the potential for successful execution of the lease unless SecDef waves me off.  
Best Regards,  
Mike

On June 23, 2003, in response to Mr. Wynne's e-mail, Mr. Krieg sent an e-mail to Mr. Wynne in which he stated:

MIKE: That's not what I intended and I may have used the wrong instrument to communicate my concerns. I just want to get together with you and Jim to make sure you understand what we are worried about. That's why I asked for us to get together this afternoon.  
KJK

On June 23, 2003, Mr. Krieg sent an e-mail to Dr. Roche in which he stated:

JIM: Understand from Doc that you are as mad as Mike [Wynne]. I am not trying to walk back anything. I am trying to get the strategy to drive the deal; the deal and contract to set the numbers; the numbers to be reopened in the report without a lot of hype.  
Probably should have called you but I will explain later.  
Want to get together with you and Mike to clear air.  
KJK

On June 23, 2003, in response to Mr. Krieg's e-mail, Dr. Roche sent an e-mail to Mr. Krieg in which he stated:

Kenny, I love you, and you know that. I think you have been had by some members of the famous PA&E [Program Analysis and Evaluation] staff. You never should have put what you put in writing. It will now be used against me and Don Rumsfeld.  
Jim

On June 23, 2003, Mr. Thomas A. Owens at Boeing sent a e-mail to Mr. Jim Albaugh at Boeing that discussed a meeting with Dr. Roche, Secretary of the Air Force on June 23, 2003. In the e-mail, Mr. Owens discussed the Boeing KC-767A Tanker Program along with other programs. Concerning the Tanker Program, Mr. Thomas stated:

Jim—as best I can reconstruct:

Tankers – He [Secretary Roche] started with 'we have a big problem' – referring to the (apparently PA&E [Program Analysis and Evaluation]) question 'if you need tankers so bad why is AF [Air Force] retiring KC-135Es early.' He made reference to [a congressional staffer] several times. He is a [Senator's] staffer.

WRT [with respect to] dialogue ref [reference] 'best price ever,' he [Secretary Roche] seemed to be concerned more for Marv's benefit than

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he was himself. He did make recommendations that we consider all factors e.g. non-recurring costs, improvements made to subsequent aircraft, NPV [net present value], rate of build, white tails etc. Bound the research by time—i.e. look back 10 years. Marv having trouble with some over issue of \$138M [million] vs \$131M [million].

[Secretary Roche] Ask[ed] us to put pressure on Mike Wynne [Acting Under Secretary of Defense for Acquisition, Technology, and Logistics] to convince PA&E to write new letter essentially undoing the first letter. He said he was not going to answer—would get in trouble no matter how he answered. [REDACTED] attempting to get mtg [meeting] for you tomorrow). [Secretary] Roche said he was going to talk to [Deputy Secretary of Defense] Wolfowitz tomorrow.

b(6)

Meanwhile the report is stalled until Craig [sic] [Mr. Kenneth J. Krieg] or someone else figures out that the letter is going to embarrass the SECDEF [Secretary of Defense].

BTW [by the way]—Wynne, Roche, Sambur, Craig [sic] [Krieg] PA&E (sp?) and Semborski [sic] [Vice Admiral Stanley Szemborski] (the deputy) having tanker mtg at 3:30 this afternoon.

**July 2003.** On July 8, Dr. Roche sent an e-mail to Mr. Jaymie Durnan, The Special Assistant to the Secretary and the Deputy Secretary of Defense with a cc: to Mr. William C. Bodie, Special Assistant to the Secretary of the Air Force in which he stated:

Jaymie, Mike Wynne has fallen for [Robin] Cleveland's line that our letter must show the bogus calculation which is NPV [net present value] negative by \$1.9 billion.

Why bogus? If we had the budget, we wouldn't need to turn to a lease. But, we don't. Thus, to assume that it exists (wrong premise), and then to assume the Congress passed legislation which it didn't, and then to condemn ourselves in writing by stating the calculation based on a fantasy simply is crazy. It is a bureaucratic trick to make a fool out of Don [Rumsfeld] as well as the Air Force. All this was 'resolved' by Pete Aldridge before he left. To quote him: 'We need to go forward with DoD's position. If OMB [Office of Management and Budget] wants to comment, let them.'

Point: we are running aground because PA&E [Program Analysis and Evaluation] and OMB want me to sign a suicide note, BUT I WILL NOT. This whole drill has gotten out of hand! Jim.

On July 10, 2003, Dr. Roche issued an update to Air Force Policy Directive 63-1, "Capability-Based Acquisition System," that had been previously superceded by a policy memorandum, "Reality-based Acquisition System Policy for all Programs," which Dr. Sambur issued on June 4, 2002. In the Directive, Dr. Roche stated that the Directive was substantially revised and must be completely reviewed. Further, he stated that:

The update of AFPD [Air Force Policy Directive] 63-1 is a result of guidance from the SECAF [Secretary of the Air Force] and CSAF [Chief of Staff of the Air Force], identified as the Commanders' intent as well as major revisions to the DoD 5000 acquisition directive and instruction. There are two overarching objectives of this policy: 1) shortening the acquisition cycle time and, 2) improving credibility within and outside the acquisition community. Emphasis is placed on the Commanders' intent and the primary mission to rapidly deliver affordable, sustainable capability that meets the warfighter's needs and expectations. Based on

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the philosophy outlined in this policy, members at all levels of the acquisition workforce are expected to seek innovative ways to achieve these objectives through teamwork, trust, common sense, and agility. Unlike previous guidance this policy is broad and non-prescriptive. The objective is to give those accountable for program execution maximum flexibility in translating needs and technological opportunity into stable, affordable and well managed acquisition programs.

**August 2003.** On August 20, Major General William Hodges, Director of Global Reach Programs, Office of the Assistant Secretary of the Air Force (Acquisition) sent an e-mail to [REDACTED] RAND Corporation with a cc: to [REDACTED] Air Force Deputy Assistant Secretary (Management Policy and Program Integration); Dr. Sambur, Assistant Secretary of the Air Force (Acquisition); Major General Paul Essex, Headquarters, Air Mobility Command; Brigadier General Mark Volcheff, Headquarters, Air Mobility Command; [REDACTED] Office of the Assistant Secretary of the Air Force (Acquisition); Lieutenant General John Corley, Principal Deputy (Acquisition), Office of the Assistant Secretary of the Air Force (Acquisition); [REDACTED], Office of the Assistant Secretary of the Air Force (Acquisition); [REDACTED] Office of the Assistant Secretary of the Air Force (Acquisition). In the e-mail, Major General William Hodges stated that:

[REDACTED]

I believe you may have already got the word from Blaise Durante [Air Force Deputy Assistant Secretary (Management Policy and Program Integration)], but since you are still traveling I wanted to confirm that you have the latest direction from Dr. Roche [Secretary of the Air Force]. He has asked us to halt our effort on conducting the AoA [analysis of alternatives] at this time, pending direction in the Authorization Bill to do so. [Emphasis added.]

b(6) - OSD Redaction

The Secretary feels it would send the wrong signal to the members participating in the upcoming SASC [Senate Armed Services Committee] Hearing on 4 September and really convey the wrong message to the committees who have already supported the Lease Proposal and our New Start request.

I would like to discuss further at your convenience.

**October 2003.** In October 2003, the RAND Corporation issued a report, "Common Replacement Asset (CRA) Study Results Briefing, DB-419-AF," [REDACTED] which were before the outcomes of the Quadrennial Defense Review and the Tanker Requirements Study 2005. RAND conducted the study before September 11, 2001, to assist the Air Force in determining when it should replace KC-135s and 135/707 aircraft and what systems it should introduce to meet future force requirements and to minimize total long-run costs. The RAND results were for Boeing airliner derivatives. [REDACTED]

[REDACTED] Since the analysis was done before September 2001, the impact of the terrorist attacks on

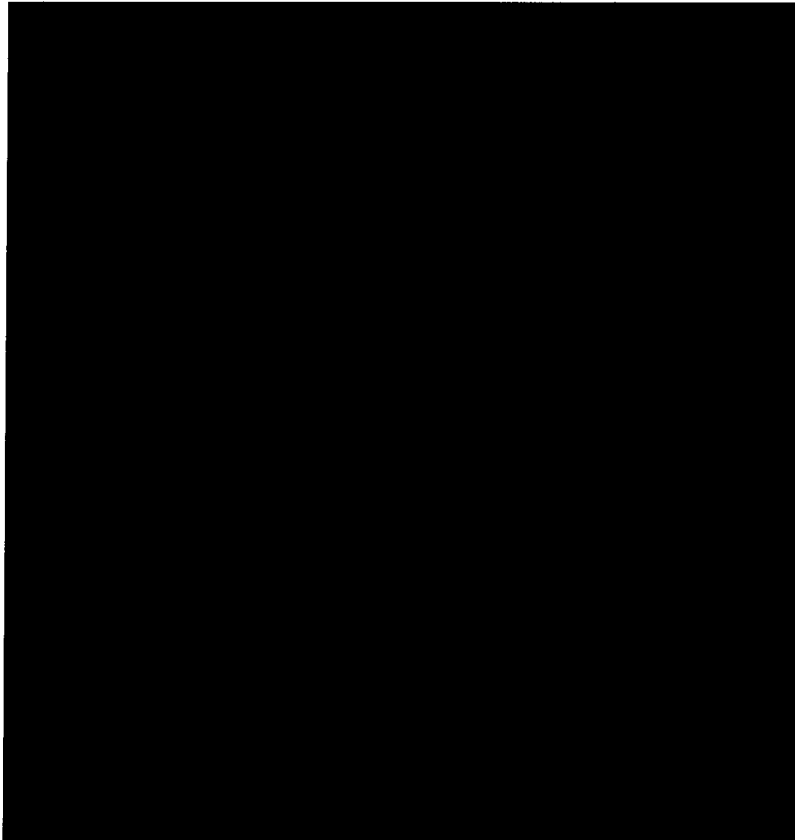
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the aircraft industry and, consequently, on the cost of acquiring commercial airliners was not included in the study.

The study found that the optimal time to replace KC-135s depends on the growth rate of sustainment costs, and the size of the replacement fleet. According to RAND, sustainment growth rate and fleet size factors were uncertain. If KC-135 sustainment costs remain stable, then no economic reason existed for replacing the KC-135 fleet until the aircraft reach their structural flying limits. The report also stated that Project Air Force research suggests that sustainment costs may rise over time due to the increased maintenance requirements of aging aircraft and assuming that four KC-135s can be replaced with about three KC-767s or equivalent aircraft, RAND concluded that immediate replacement would make sense. However, RAND stated that quite plausible differences in future requirement assessments and in future cost-growth projection can make the answer vary from "now" to "decades from now."

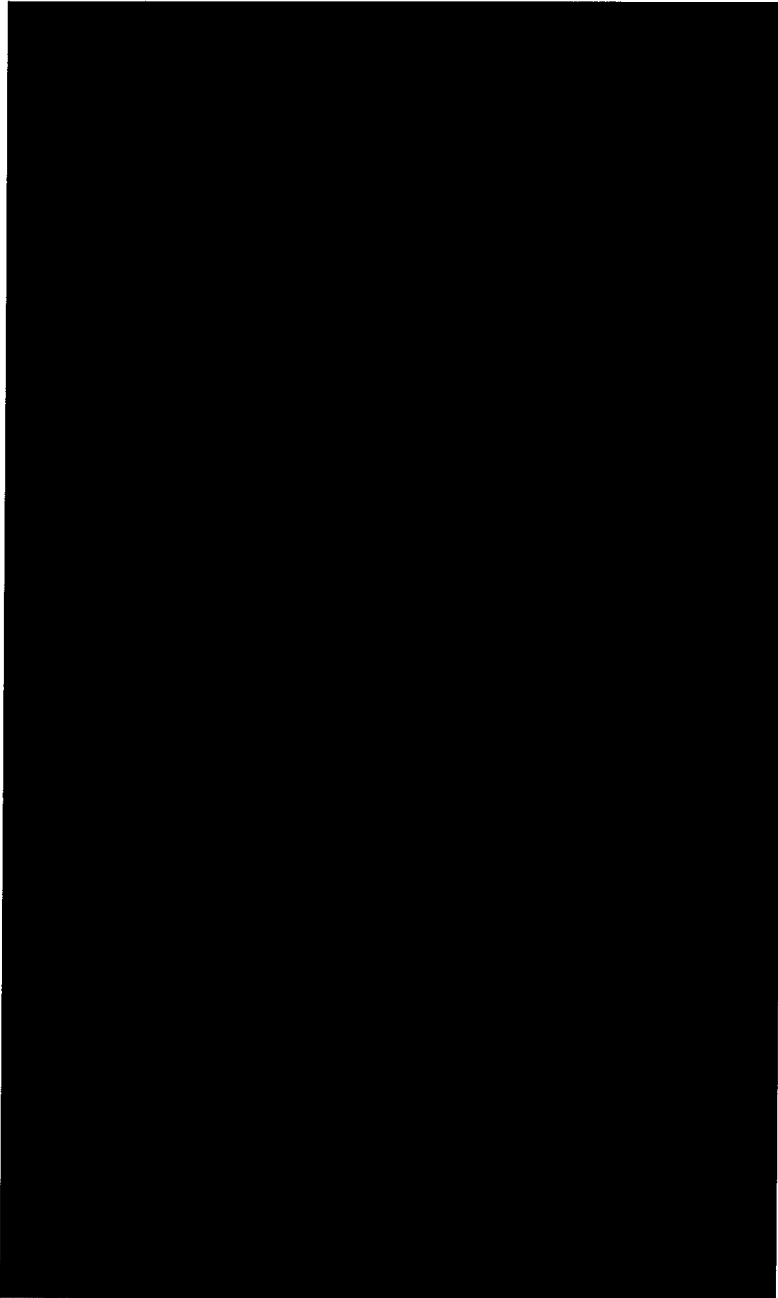
**November 2003.** On November 1, Brigadier General Scott B. Custer, Office of Air Force Legislative Liaison sent an e-mail to Dr. Roche; General John Jumper, Air Force Chief of Staff; and Dr. Sambur in which he stated:



b(5) - OSD Redaction

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\*Removed for reason stated in the initial asterisked footnote.



b(5) - OSD Redaction

On November 24, 2003, in Section 135 of the National Defense Authorization Act for FY 2004, Congress limited the number of tanker aircraft that the Air Force could lease to 20 and authorizes procurement of up to 80 aircraft. In addition, Section 135 of the National Defense Authorization Act for FY 2004 required that

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\*Removed for reason stated in the initial asterisked footnote.

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the Secretary of Defense perform a study of long-term aircraft maintenance and requirements.

**Sec. 135. PROCUREMENT OF TANKER AIRCRAFT.**

(a) **LEASED AIRCRAFT** – The Secretary of the Air Force may lease no more than 20 tanker aircraft under the multiyear aircraft lease pilot program referred to in subsection (d).

(b) **MULTIYEAR PROCUREMENT AUTHORITY** – (1) Beginning with the fiscal year 2004 program year, the Secretary of the Air Force may, in accordance with section 2306b of title 10, United States Code, enter into a multiyear contract for the purchase of tanker aircraft necessary to meet the requirements of the Air Force for which leasing of tanker aircraft is provided for under the multiyear aircraft lease pilot program but for which the number of tanker aircraft leased under the authority of subsection (a) is insufficient.

(2) The total number of tanker aircraft purchased through a multiyear contract under this subsection may not exceed 80.

(3) Notwithstanding subsection (k) of section 2306b of title 10, United States Code, a contract under this subsection may be for any period not in excess of 10 program years.

(4) A multiyear contract under this subsection may be initiated or continued for any fiscal year for which sufficient funds are available to pay the costs of such contract for that fiscal year, without regard to whether funds are available to pay the costs of such contract for any subsequent fiscal year. Such contract shall provide, however, that performance under the contract during the subsequent year or years of the contract is contingent upon the appropriation of funds and shall also provide for a cancellation payment to be made to the contractor if such appropriations are not made.

(c) **STUDY OF LONG-TERM TANKER AIRCRAFT MAINTENANCE AND TRAINING REQUIREMENTS-(1)**- The Secretary of Defense shall carry out a study to identify alternative means for meeting the long-term requirements of the Air Force for—

(A) the maintenance of tanker aircraft leased under the multiyear aircraft lease pilot program or purchased under subsection (b); and

(B) training in the operation of tanker aircraft leased under the multiyear aircraft lease pilot program or purchased under subsection (b).

(2) Not later than April 1, 2004, the Secretary of Defense shall submit a report on the results of the study to the congressional defense committees.

(d) **MULTIYEAR AIRCRAFT LEASE PILOT PROGRAM DEFINED**- In this section, the term ‘multiyear aircraft lease pilot program’ means the aerial refueling aircraft program authorized under section 8159 of the Department of Defense Appropriations Act, 2002 (division A of Public Law 107-117; 115 Stat. 2284).

(e) **SENSE OF CONGRESS**- It is the sense of Congress that, in budgeting for a program to acquire new tanker aircraft for the Air Force, the President should ensure that sufficient budgetary resources are provided to the Department of Defense to fully execute the program and to further ensure that all other critical defense programs are fully and properly funded.

On November 27, 2003, Mr. Peter Teets, Under Secretary of the Air Force sent an e-mail to Dr. Roche in which he stated:

Jim: I think it is important for you to know all I know about the situation surrounding the tankers. I sat in for you at the SecDef [Secretary of Defense] staff meeting last Tuesday. As we went around the table, Joe

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Schmitz (IG) [Department of Defense Inspector General] mentioned the Boeing dismissal of Sears and Druyun. The SecDef then asked if in light of that should we take a second look at her involvement in any tanker lease related matters in order to deflect possible criticism from the SASC [Senate Armed Services Committee] and unfavorable publicity. I said I thought that was a good idea, and that we (the Air Force) would do so. No further discussion on the subject occurred at the staff meeting. After the staff meeting I scheduled short separate meetings with Marv Sambur and Mary Walker for Tuesday afternoon following my return from a meeting at CIA [Central Intelligence Agency]. When I returned, I learned that Marv could not meet with me at the scheduled time because he was in Mike Wynne's office discussing Darleen's involvement with tankers. I then met with Mary and asked her to think through the Darleen situation, plus another matter regarding proper packaging of material on the AFA [Air Force Academy] situation that Schmitz had said was required to be delivered to the SASC. Late Tuesday afternoon I then talked to Marv Sambur and got his assurance that a thorough review of the Darleen situation had been completed and that there was no way Darleen had any influence on our current plan for tankers. Furthermore, Marv said that a letter had been prepared for the DepSecDef [Deputy Secretary of Defense] to send over to the SASC indicating same, and notifying them of our intent to proceed. At that point, I thought the issue was resolved. On Wednesday morning I read the Wash [Washington] Post article quoting Sec [Secretary] Rumsfeld as saying he had asked his staff to do a review of the tanker deal. I sent Marv and [sic] e-mail offering any help I could provide, and he responded with thanks, but it was clear that this situation had once again gotten out of control. I am sorry to report the news to you, but felt you needed the whole story as it unfolded.

Best Regards,  
Pete.

**December 2003.** On December 1, 2003, the Deputy Secretary of Defense requested an audit by the Department of Defense Office of the Inspector General, stating that "In light of recent revelations by The Boeing Company concerning apparent improprieties by two of the company's executives, please determine whether there is any compelling reason why the Department of the Air Force should not proceed with its Tanker Lease Program. In particular, I would appreciate knowing whether any of these revelations affect any of your previous analysis of this program."

**February 2004.** On February 1, 2004, the Deputy Secretary of Defense requested that the Defense Science Board evaluate aerial refueling requirements. Specifically:

I am requesting you form a Defense Science Board (DSB) Task Force to evaluate current aerial refueling capability and future Department of Defense (DoD) aerial refueling requirements. The Task Force's evaluation should include recommendations for meeting future aerial refueling requirements.

Most legacy and projected DoD aircraft require aerial refueling to conduct operations across the entire spectrum of DoD missions. As the Department transforms itself to meet the challenges of the 21st century, existing aerial refueling capabilities may or may not meet future needs. New systems and capabilities are being developed (e.g. F/A-22, the Joint Strike Fighter, Small Diameter Bomb, unmanned aerial vehicles, proposed strategic strike capabilities, etc.) which may drastically alter future requirements for aerial refueling. Current long range air mobility

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and strike aircraft represent a significant and pervasive demand on aerial refueling assets. In addition, it is quite possible that opponents have identified refueling assets as a necessary component of U.S. success and will target these assets in future conflicts, representing an attrition of aerial refueling capability that we have not experienced in the past.

The Task Force should assess current and future requirements with respect to both legacy systems and missions, and take into account proposed future systems and capabilities. The Task Force shall have access to the historic reviews of the Air Force, General Accounting Office, and other DoD departments, and request any data collection, or data development required to fill in analytical gaps. Using best estimates of requirements for 2010, 2020, and 2030, the Task Force should assess the following options with respect to DoD aerial refueling capability.

a. Retain the requisite number of assets to maintain current capability. The Task Force should identify any issues which may affect the ability of the current aerial refueling fleet to continue to operate, to include potential affects of corrosion, the estimated length of service existing for current assets, means to mitigate these issues, and estimated costs of maintaining these assets as the fleet ages.

b. Perform a service life extension on the requisite number of existing aircraft. The Task Force should identify the expected lifetime of refurbished aircraft to bound the potential cost of this option.

c. Acquire new refueling capabilities. As a minimum, the Task Force should assess the acquisition of new aircraft, modification of used aircraft to perform the aerial refueling mission, and development of unmanned aerial vehicles as an aerial refueling tanker. The Task Force should include an estimate of costs and quantify an acquisition rate for any new capabilities.

d. Evaluate other methods to address refueling needs. For example, there may be sufficient financial incentive to re-engine existing fleets of aircraft with more fuel efficient engines which would lower overall demand. Development of suitable doctrine to employ Small Diameter Bombs or other future precision weapons may reduce the number of required sorties and similarly lower future demand. The Task Force should attempt to quantify these trends and estimate costs of these capabilities for comparison to the costs of other refueling options.

In arriving at the conclusions, the Task Force should not be bound by any one option and may explore options not discussed above.

The Task Force should provide a final report by April 30, 2004. The Task Force should provide their report directly to the Secretary of Defense.

Administrative support and funding will be provided by Mr. Michael W. Wynne, Acting USD(AT&L) and Dr. Glenn Lamartin, Director, Defense Systems. Admiral Don Pilling, USN (Ret) and [REDACTED] will serve as Co-Chairmen of the Task Force. [REDACTED] Defense Systems (Air Warfare), will serve as Executive Secretary; and [REDACTED] USAF, will serve as the DSB [Defense Science Board] Secretariat Representative.

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The Task Force shall have access to any classified information needed to develop its assessment and recommendations.

The Task Force will be operated in accordance with the provisions of P.L. 92-463, the 'Federal Advisory Committee Act,' and DoD Directive 5105.4, 'The DoD Federal Advisory Committee Management Program.' It is not anticipated that this Task Force will need to go into any 'particular matters' within the meaning of Section 208 of Title 18,



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U.S. Code, nor will it cause any member to be placed in the position of acting as a procurement official.

On February 1, 2004, the Deputy Secretary of Defense requested that the National Defense University conduct a comprehensive analysis of lessons learned for the Air Force Tanker Lease Program. Specifically:

In our continuing effort to improve the Department of Defense acquisition processes, policies and procedures, I am requesting that National Defense University make available [redacted] and [redacted] from the Industrial College of the Armed Forces to conduct a thorough and comprehensive 'lessons learned' analysis of the U.S. Air Force Tanker Lease Program. [redacted] and [redacted] will constitute a two person team with [redacted] as Chairman. [redacted] and [redacted] should plan to initiate their analysis on or about February 1, 2004 and brief results no later than April 30, 2004.

The lessons learned analysis should answer at a minimum, but not be limited to the following questions:

- a. What processes, policies and procedures apply to the Tanker Lease Program and the contractor selection?
- b. Was the established acquisition process followed in establishing the Tanker Lease Program as the solution to the DoD aerial refueling requirements, if not why not?
- c. Were established cost and pricing guidelines followed, if not why not?
- d. Were required congressional notifications made and made on time, if not why not?
- e. Was there a competitive process that determined the Tanker Lease Program contractor?
- f. What was the critical element in the acquisition needs statement that drove the requirement and therefore the replacement timing?

I recognize that this request will place a burden on your faculty workload, but it is a crucially important assessment, and I am confident that the results of this analysis will be extremely valuable as we work to improve the DoD acquisition process.

Administrative support and funding will be provided by USD(AT&L). The Office of the Secretary of Defense point of contact is [redacted] (703) 695-[redacted]

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On February 24, 2004, Mr. Michael W. Wynne, Acting Under Secretary of Defense for Acquisition, Technology, and Logistics sent a memorandum, "Analysis of Alternatives (AoA) Guidance for KC-135 Recapitalization," to the Secretary of the Air Force. In the memorandum, Mr. Wynne stated:

I direct you to conduct an AoA [analysis of alternatives] for analyzing potential courses of action for recapitalizing the KC-135 fleet, under the oversight of a Senior Steering Group (SSG). The attached guidance (Enclosure 1) is provided to assist you.

I appoint the Director, Defense Systems [Dr. Glenn F. Lamartin] as chair of the SSG, which will be comprised of representatives from offices that have equities in the future of the aerial refueling fleet to include the military services, Joint Staff, USTRANSCOM [U. S. Transportation Command], and OSD/PA&E [Office of the Secretary of

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Defense/Program Analysis and Evaluation]. The SSG will guide and review the work of the AoA.

A study plan shall be submitted to the SSG for review and approval not later than two months from the date of this memorandum. It should include the AoA team composition and should specify the federally funded research and development center or other independent agency being used for the study. A final report—presenting details of the analysis, cost estimates, and the results—will be due within 18 months of the date of this memorandum.

My point of contact for this action is [REDACTED] at (703) 697-

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**March 2004.** On March 29, the Department of Defense Office of the Inspector General issued Report No. D-2004-064, "Acquisition of the Boeing KC-767A Tanker Aircraft," stating that the Air Force used an inappropriate procurement strategy and demonstrated neither best business practices nor prudent acquisition procedures to provide sufficient accountability for the expenditure of \$23.5 billion for the KC-767A tanker program. We identified five statutory provisions that have not yet been satisfied relating to: commercial items; testing (two statutes); cost-plus-a-percentage-of-cost system of contracting; and leases. Therefore, we recommended that DoD not proceed with the program until it resolves the issues pertaining to the procurement strategy, acquisition procedures, and statutory requirements.

Based on our findings, we also recommended that the Deputy Secretary consider the following options.

1. After implementation of audit recommendations to resolve contracting and acquisition issues, proceed with the sole-source acquisition of the Boeing KC-767A Tanker Program for 100 or fewer aircraft.
2. Initiate a new major Defense acquisition program based on the results of an analysis of alternatives for military tanker aircraft.
3. Implement a mix of Option 1 for some of the tankers and Option 2 for subsequent tankers.

Our audit results showed that, contrary to the Air Force interpretation, the Boeing KC-767A Tanker Program did not meet the statutory definition of a commercial item. No commercial market for this tanker aircraft existed to establish reasonable prices by the forces of supply and demand. Consequently, the commercial item procurement strategy did not provide the Air Force with sufficient cost or pricing data to make multi-billion dollar decisions for the Boeing KC-767A Tanker Program and did not demonstrate the level of accountability needed to conclude that the prices negotiated represent a fair expenditure of DoD funds. The Air Force used Section 8159 of the Department of Defense Appropriations Act for FY 2002 to justify its informal acquisition strategy with the primary goal to expeditiously lease 100 Boeing KC-767A Tanker aircraft to replace its aging KC-135E Tanker fleet. In doing so, the Air Force did not demonstrate best business practices and prudent acquisition procedures in developing this program and did not comply with statutory provisions for testing.

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**April 2004.** On April 20, the National Defense University issued its report in response to the Deputy Secretary of Defense tasking on February 1, 2004. The National Defense University was tasked to answer six questions dealing with the tanker lease acquisition. Based on interviews and literature reviews, the National Defense University concluded that the Air Force and the Department of Defense bypassed many elements of the normal acquisition system and that the Office of the Secretary of Defense Leasing Review Panel was not a substitute for the Defense Acquisition Board review of the tanker lease acquisition. The National Defense University also concluded that the Air Force did not use a competitive process for the tanker lease acquisition although contractor selection was a foregone conclusion based on Section 8159. The National Defense University recommended that the Department of Defense:

- publish guidance on leasing in policy directives, the Federal Acquisition Regulation, and the Defense Federal Acquisition Regulation Supplement; and
- establish procedures to require both cost and pricing data on sole source or monopoly, commercial leases.

**May 2004.** The Defense Science Board issued its report in response to the Deputy Secretary of Defense tasking on February 1, 2004. The Aerial Refueling Defense Science Board Task Force reviewed the KC-135 program and concluded that, based on fatigue life, the KC-135 airframe would be capable to 2040 and that corrosion was manageable. With regard to KC-135 operation and support costs, the Defense Science Board concluded that cost growth is manageable. The Board also commented on tanker recapitalization noting that there is a need to embark on a major tanker recapitalization program, but because total tanker requirements were uncertain, the recapitalization program could be deferred until the completion of the analysis of alternatives and the Mobility Capabilities Study. The Defense Science Board did not endorse the KC-767A tanker aircraft as the prime or only Air Force near term solution to the tanker recapitalization problem. The Defense Science Board suggested several options for replacing the KC-135Es including:

- obtaining additional DC-10s that could be converted into tankers,
- retiring half of the KC-135Es under a hybrid recapitalization program and replacing them with commercial entities as commercial tankers for missions in the Continental United States,
- phasing out the other half of the KC-135E and replacing them with converted KC-10, and
- working with major airframe manufacturers to develop new tanker options with more modern airframes than the 20-year-old Boeing 767 design.

**September 2004.** On September 3, the President, Defense Acquisition University issued his report in response to tasking memorandum, "Lessons Learned from the Independent Assessments of Proposed 767 Tanker Lease Buy," that the Acting Under Secretary of Defense for Acquisition, Technology, and Logistics issued on May 25, 2004. The independent assessments referred to were the Aerial

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Refueling Defense Science Board Task Force Study; the Analysis of Lessons Learned from the United States Air Force Tanker Lease Program (TLP) – Industrial College of the Armed Forces/National Defense University (ICAF/NDU); and the DoD Inspector General Audit Report “Acquisition of the Boeing KC-767A Tanker Aircraft.”

The memorandum directed the President, Defense Acquisition University to “. . . chair a working group to formulate recommendations based on the results of these three studies that will result in changes to the DoD 5000 Series, Federal Acquisition Regulation (FAR)/Defense Federal Acquisition Regulation (DFAR), and other acquisition related documents.” The Defense Acquisition University Working Group did not conduct its own independent review, but relied on the work previously accomplished by the Defense Science Board, the Industrial College of the Armed Forces, and the Department of Defense Office of the Inspector General. The Working Group reviewed all three reports to assess the policy implications, which were based on systemic and structural deficiencies, and to make appropriate policy recommendations.

The Working Group concluded that policy for commercial item acquisitions and the leasing process needed clarification. Specific recommendations included several proposed policy changes in the areas of Acquisition Management and Oversight, Commercial Item Policy and Leasing Policy. The Under Secretary of Defense for Acquisition, Technology, and Logistics adopted all of the proposed recommendations and is in the process of implementation. The most significant of the proposed recommendations were that the Under Secretary of Defense for Acquisition, Technology, and Logistics:

- Follow DoD Instruction 5000.2 oversight, review, and decision processes - Cancel Leasing Review Panel;
- Change the Federal Acquisition Regulation and the Defense Federal Acquisition Regulation Supplement to clarify the authority of the contracting officer to obtain all necessary cost information needed to determine prices are fair and reasonable in commercial item acquisitions;
- Develop specific guidance for analyzing whether a significant military unique modification effects a commercial item determination and for determining a fair and reasonable price for the modified item;
- Rewrite the Commercial Item Handbook to incorporate recent changes resulting from legislation and best practices; and
- Evolve DoD’s existing body of knowledge in regard to management of major systems to include systems acquired using Federal Acquisition Regulation, Part 12 procedures (e.g. testing, modifications).

**October 2004.** On October 28, in Section 133 of the “Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005,” Congress terminated the Secretary of the Air Force authority to lease tanker aircraft; however, it authorized the procurement of up to 100 tanker aircraft.

SEC. 133. AERIAL REFUELING AIRCRAFT ACQUISITION PROGRAM.

(a) TERMINATION OF LEASING AUTHORITY.—Subsection (a) of section 135 of the National Defense Authorization Act for Fiscal Year 2004 (Public Law 108-136; 117 Stat. 1413; 10 U.S.C. 2401a note) is amended by striking “may lease no more than 20 tanker aircraft” and inserting “shall lease no tanker aircraft”.

(b) MULTIYEAR PROCUREMENT AUTHORITY.—Subsection (b) of such section is amended—

(1) in paragraph (1)—

(A) by striking “Beginning with the fiscal year 2004 program year, the Secretary” and inserting “The Secretary”; and

(B) by striking “necessary to meet” and all that follows through “is insufficient”;

(2) in paragraph (2), by striking “80” and inserting “100”; and

(3) by striking paragraph (4).

(c) STUDY.—Subsection (c)(1) of such section is amended by striking “leased under the multiyear aircraft lease pilot program or” in subparagraphs (A) and (B).

(d) RELATIONSHIP TO PREVIOUS LAW.—Such section is further amended by adding at the end the following new subsection:

“(f) RELATIONSHIP TO PREVIOUS LAW.—The multiyear procurement authority in subsection (b) may not be executed under section 8159 of the Department of Defense Appropriations Act, 2002 (division A of Public Law 107-117).”.

**December 2004.** On December 9, Mr. Donald M. Horstman, Director, Investigations of Senior Officials, Department of Defense Office of the Inspector General sent a memorandum, “Accountability Assessment of Air Force Officials who Participated in the KC-767A Tanker Aircraft Program,” to the Inspector General of the Air Force, Attention: [REDACTED]. In the memorandum, Mr. Horstman stated that:

As discussed with [REDACTED] of your office on December 9, 2004, we have initiated a review to assess the accountability of Air Force officials who were involved in the KC-767A Tanker Aircraft Program. This review is separate and distinct from previous and ongoing audits/investigations into matters concerning the tanker program. The objective is to determine the extent to which individual Air Force officials bear responsibility for decisions that resulted, or had the potential to result, in the waste of Government resources, or that constituted an abuse of authority.

Our assessment will consider information collected during previous and ongoing activities concerning the KC-767 tanker lease initiative, augmented by additional interviews and fact-finding. We will begin the fieldwork portion of our assessment by interviewing knowledgeable witnesses at the Air Force Material Command (AFMC), Wright-Patterson Air Force Base. Will coordinate our activities with the Inspector General, AFMC, and we request that you advise Air Force officials of the assessment as you deem appropriate.

Should you have any questions, please contact me or [REDACTED] at (703) 604-[REDACTED]

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**January 2005.** On January 19, in response to Mr. Donald M. Horstman’s memorandum of December 9, 2004, Dr. Roche sent a letter to Mr. Joseph E. Schmitz, Department of Defense Inspector General with a cc: to the Secretary of Defense and the Deputy Secretary of Defense. In his letter, Dr. Roche stated:

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Dear Mr. Schmitz:

I am in receipt of your 9 December 2004 memorandum forwarded to the Air Force Inspector General announcing another investigation of current Air Force officials by the DoD IG Directorate of Investigations of Senior Officials into matters related to the 767 tanker lease proposal.

I am astounded that we are spending government resources chasing groundless allegations of malfeasance related to tanker recapitalization proposals. It should be abundantly clear to all objective observers that air refueling tanker recapitalization must be started soon, and that those finalizing the previous lease proposal did so consistent with legislation and with the intention of protecting taxpayer interests. As important, limiting any review to the Air Force, and not OSD [Office of the Secretary of Defense], only contributes to the myth that this was exclusively an Air Force proposal. It was not. It was a proposal of the Department of Defense and the Administration, and it consistently was supported by three of the four congressional defense committees. But do not misconstrue this point. I'm not calling for an investigation of DoD or Air Force personnel. I see no basis to investigate anyone associated with the final lease proposal. But if you find yourself compelled to do so, then your agency should look at all aspects of the process leading to that proposal.

Many looking into the lease proposal seem to miss the starting point. The proposed lease responded to unambiguous congressional language. Specifically, the 2002 National Defense Appropriations Act, passed by Congress and signed by the President, included the provision that allowed the Secretary of the Air Force to '*... establish and make payments on a lease pilot program for leasing general purpose Boeing 767 aircraft and Boeing 737 aircraft ...*'.

Acting under this legislative direction, the Air Force negotiated a *proposed* pilot lease for 100 KC-767A tanker aircraft, regularly vetting details of the evolving proposal with the Department of Defense along the way. Not unlike the process followed for the successful 737 lease months earlier, about which there have been no complaints, we collaborated on an ongoing basis with the OSD Leasing Review Panel to formulate the details of the proposed lease agreement. The Leasing Review Panel, co-chaired by the Undersecretary of Defense, Acquisition Technology and Logistics, the Honorable Pete Aldridge; and the Undersecretary of Defense, Comptroller and Chief Financial Officer, the Honorable Dov Zakheim, was the final decision authority on whether and when to bring the final lease proposal forward.

This body, supported by a Working Group that included representatives from the Office of Management and Budget, scrutinized every aspect of the proposal for over a year. Ultimately, the Department of Defense, not the Air Force, approved the lease pilot program. It was the Undersecretary of Defense (AT&L [Acquisition, Technology, and Logistics]) who took the lead, quite properly, in negotiating this matter with the Office of Management and Budget and with senior White House staff. Ultimately, the Department of Defense authorized the Air Force to submit the proposal to the congressional defense committees for their consideration and approval, as directed by law. While three of the four committees approved the new start request for the lease, the Senate Armed Services Committee (SASC) did not. Incidentally, it was I who originally championed obtaining the approval of all four committees before we proceeded. Without SASC approval, no contract was signed, no funds were expended, and, unlike the 737 lease, a Boeing 767 lease pilot program was not executed. There is no improper contract to investigate, no waste of resources to pursue, and, a Defense Acquisition

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University study determined that there were no violations of procurement policies.

Unfortunately, the DoD IG inquiry to 'determine the extent to which individual Air Force officials bear responsibility,' as announced in your memorandum, appears to suggest that the Air Force is somehow solely responsible for all that transpired in negotiating the lease and presenting the proposal to Congress. Again, let me be clear. The Air Force and the Department of Defense responded to congressional direction and proposed a lease of Boeing 767 tanker aircraft in compliance with legislation. Decisions on the future of this program were made at every level throughout the Department of Defense. Indeed, it would be difficult to preserve the credibility of the inspector general process or the investigation results if the investigation is arbitrarily limited to Air Force personnel or Air Force processes, or even DoD personnel and processes, particularly given these basic facts:

a. In January 2003, the Undersecretary of Defense (AT&L), the Honorable Pete Aldridge, concluded that a lease of 100 tankers as called for in legislation was the right and fiscally prudent decision. He then took the lead in developing the Department's tanker proposal through the Leasing Review Panel.

b. In the same month, [REDACTED] told the Air Force Chief of Staff that, along with [a Representative], he supported the proposal for new tankers for the Air Force.

b(5) - OSD Redaction

c. Throughout the spring of 2003, [REDACTED] took the lead for the White House in developing the Administration's tanker proposal, concentrating in particular on unit price.

b(5) - OSD Redaction

d. In this period, the Boeing Company met with and discussed the tanker lease with [REDACTED] on at least one occasion.

b(5) - OSD Redaction

e. Mr. Aldridge and Deputy Secretary of Defense Wolfowitz negotiated the approval of the proposal with [REDACTED] based largely on what the Administration believed would be an acceptable price for the tankers.

b(5) - OSD Redaction

f. Near the end of May 2003, Mr. Aldridge recommended to the Deputy Secretary, and presumably the Secretary, that the Department go forward with the lease, given the dramatic price reduction obtained over the spring.

g. With the approval of the White House and the Secretary of Defense, Mr. Aldridge announced the Department's position at a press conference in late May.

h. In July 2003, Secretary Rumsfeld called me in Newport, Rhode Island, to tell me that he did not want me to 'give anything away' during my visits with senators in conjunction with my nomination to be Secretary of the Army. He specifically stated that he did not want me to budge on the tanker lease proposal.

i. In September 2003, OMB [Office of Management and Budget] and OSD joined the Air Force in supporting the Administration's tanker proposal before Congress. Three of the four defense committees approved the proposal.

j. Throughout the period spent developing the tanker lease proposal, [a Representative] vigorously supported the proposal, and closely monitored the process, as did other members of Congress. The Chairmen

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\*Removed for reason stated in the initial asterisked footnote. (The second, third, and fourth references are also on page 213.)

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of the Senate and House Defense Appropriations Subcommittees strongly supported the proposal, as did the Chairman of the House Armed Services Committee. These three defense committees continue to this day to call for tanker recapitalization of one form or another.

Lastly, you indicate an intention to start this investigation at the field offices of 'Air Force Material (sic) Command.' The bulk of the activities related to this innovative effort to begin recapitalizing our tanker fleet occurred here in Washington. As indicated previously, offices within DoD were engaged at every stage in the development of this proposal. Moreover, members and committees of Congress, as well as the White House, the Office of Management and Budget in particular, were involved from the earliest days and frequently along the way. You simply cannot gain a proper perspective of how good and decent people tried to do the right thing by our warfighters and the American taxpayer without looking at every aspect of how this program developed and evolved. If you are going to undertake this investigation, then I believe you should in all fairness obtain the full cooperation of the Secretary of Defense, the White House and congressional leadership for your inquiry.

In conclusion, I'm not calling for a broad investigation into all these events, even though a comprehensive look across multiple agencies would be absolutely necessary should you wish to understand the process fully. The Air Force put forward a proposal done in conformance with the law and policies in place at the time. The Air Force performed a due diligence look into potential alternatives, including open competition, even though the legislation specified the Boeing 767. We faced some criticism from certain members of Congress for taking this step. The proposal had built-in safeguards against any windfall profits for the supplier. It was debated, adjusted, renegotiated, and eventually approved by OSD and the Administration. Not a dime was given to the Boeing Company at anytime, nor would any be given without full congressional approval.

No, I'm calling for you to do the courageous thing and not contribute to the further character assassination of those who tried to serve honorably in this matter. To continue down the current path will dramatically contribute to severe risk aversion on the part of senior and junior military leaders who should innovatively and efficiently field enhanced war-fighting capabilities to those Americans who must go into harm's way. To put it bluntly, this investigation will further stifle innovative procurement for years to come.

Sincerely, James G. Roche, Secretary of the Air Force

On January 27, 2005, the Chairman, Committee on Commerce, Science, and Transportation sent a letter to the Secretary of the Defense, requesting that we determine who intentionally deleted information from placards that were displayed during a tour that members of the Senate Armed Services Committee staff participated in during Tinker Air Force Base visit in October 2003. Subsequent to the tour, the Committee staff asked for copies of the placards. Appendix G and supporting Appendices H, I, J, and K address the placards.



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## **Appendix D. Members of the Office of the Secretary of Defense and the Air Force Who Were Interviewed**

The following members of the Office of the Secretary of Defense and the Department of the Air Force, both military and civilian, including the then-Secretary of the Air Force and the then-Assistant Secretary of the Air Force (Acquisition), were interviewed to gain insight into what happened and who was accountable during the structuring and negotiating of the proposed lease contract for the Boeing KC-767A Tanker Program.

### **Office of the Secretary of Defense**

**Donald Rumsfeld**, Secretary of Defense

**Paul Wolfowitz**, Deputy Secretary of Defense

### **Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics**

**Mr. Michael Wynne**, Acting Under Secretary of Defense for Acquisition, Technology, and Logistics<sup>6</sup> (formerly the Principal Deputy Under Secretary of Defense for Acquisition, Technology, and Logistics)

**Dr. Nancy Spruill**, Director, Acquisition Resource and Analysis


**Ms. Deidre Lee**, Director of Defense Procurement and Acquisition Policy

### **Office of the Under Secretary of Defense (Comptroller/Chief Financial Officer)**

**Dr. Dov Zakheim**, Under Secretary of Defense (Comptroller)/Chief Financial Officer

**Mr. Wayne Schroeder**, Deputy Under Secretary of Defense (Resource Planning/Management)

### **Office of the General Counsel**

 Department of Defense Office of the General Counsel

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<sup>6</sup>Became the Under Secretary of Defense for Acquisition, Technology, and Logistics on April 1, 2005.

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Mr. Douglas Larsen, Department of Defense Deputy General Counsel for Acquisition and Logistics

## **Office of Program Analysis and Evaluation**

Mr. Kenneth Krieg, Director

Mr. Richard Burke, Deputy Director for Resource Analysis

Mr. David McNicol, Deputy Director for Resource Analysis (former)

██████████ Analyst for the Economic and Manpower Analysis Division

## **Office of the Secretary of the Air Force**

Dr. James G. Roche, Secretary of the Air Force

## **Office of the Assistant Secretary of the Air Force (Acquisition)**

Dr. Marvin R. Sambur, Assistant Secretary of the Air Force (Acquisition)

Major General Paul Essex, Director of Global Reach Programs (former)

Major General Wayne Hodges, Director of Global Reach Programs

Major General Darryl A. Scott, Deputy Assistant Secretary (Contracting)

██████████ Deputy Director of Global Reach Programs (retired)

██████████ Deputy Director for Special Programs (retired)

██████████ Chief, Mobility Division (retired)

██████████ Mobility Division

██████████ Mobility Division

██████████ Support Contractor Analyst, Mobility Division

██████████ Deputy Chief, Contracting Operations Division

## **Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller)**

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Mr. Michael Montelongo, Assistant Secretary of the Air Force (Financial Management and Comptroller)